

## **FY04 Financial Section**

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# LEGISLATIVE AUDIT DIVISION

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Legislative Audit Committee  
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board manages eight defined benefit retirement systems. The Montana Constitution and state law require these systems be actuarially sound. The actuarial valuation as of July 1, 2004, indicates the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.
2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2004, indicates the Teachers' Retirement System is not actuarially sound.

We also noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

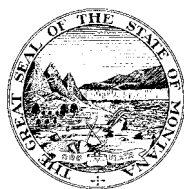
*/s/ James Gillett*

November 29, 2004

James Gillett, CPA  
Deputy Legislative Auditor

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2004, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.07 and 1.55 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.04 and 0.10 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 10.51 and 5.69 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages B-5 through B-15 and B-88 through B-90, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages B-91 through B-130 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated November 29, 2004, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report, on page B-1, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA

Deputy Legislative Auditor

November 29, 2004

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

## FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

### Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2004 by \$4.6 billion (reported as net assets) compared with \$4.3 billion at the end of fiscal year 2003. Of this amount, \$238 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$874 million compared with \$643.3 million at fiscal year 2003.

### Fund Highlights

As of the close of fiscal year 2004, the State's governmental funds reported combined ending fund balances of \$2.3 billion compared with \$2.2 billion at fiscal year 2003. Of this amount, \$66.6 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.2 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$132.9 million compared with \$43.1 million in fiscal year 2003, which is a increase of \$89.8 million (or 208.4%).

The State's business-type activity funds reported net assets at the close of fiscal year 2004 in the amount of \$236.3 million compared with the fiscal year-end 2003 net assets of \$230.6 million. \$221.4 million of the business-type activity fund equity was restricted at fiscal year-end 2004 leaving an unrestricted balance of \$14.9 million. This represents a \$4.4 million (or 22.8%) decrease from the fiscal year-end 2003 business-type activity fund unrestricted net asset balance of 19.3 million.

### Long-term Debt

The State's total bonds and notes payable for governmental activities decreased from \$330.8 million in fiscal year 2003 to \$305.1 million (or 7.8%) in fiscal year 2004.

Business-type activities reported bonds and notes payable of \$7.9 million at fiscal year-end 2004. This represents a decrease of \$2.5 million (or 24%) over the fiscal year-end 2003 reported amount of \$10.4 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

### Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

*Business-type Activities* – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

*Discretely Presented Component Units* – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

### **Fund Financial Statements (Reporting the State's Major Funds)**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

*Governmental Funds Financial Statements* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,



the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

*Proprietary Funds Financial Statements* – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal Service Fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

*Fiduciary Funds* – These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

#### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session, stronger than expected statewide economic performance, an almost non-existent 2004 fire season, and the receipt of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).

#### **Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$4.6 billion at the end of fiscal year 2004. Net assets of the governmental activities increased \$287 million (or 7%), and business-type activities had a \$5.7 million (or 2.5%) increase.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Net Assets**  
**As of Fiscal Year Ended June 30**  
*(expressed in thousands)*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
Current and other assets	\$2,733,511	\$2,952,118	\$326,525	\$350,552	\$3,060,036	\$3,302,670
Capital assets	2,225,327	2,409,128	10,195	8,925	2,235,522	2,418,053
Total assets	4,958,838	5,361,246	336,720	359,477	5,295,558	5,720,723
Long-term liabilities	369,306	336,669	10,010	9,896	379,316	346,565
Other liabilities	545,689	693,483	96,107	113,274	641,796	806,757
Total liabilities	914,995	1,030,152	106,117	123,170	1,021,112	1,153,322
Invested in capital assets, net of related debt	2,049,489	2,250,177	9,084	8,925	2,058,573	2,259,102
Restricted	1,817,193	1,858,088	202,268	212,473	2,019,461	2,070,561
Unrestricted	177,161	222,829	19,251	14,909	196,412	237,738
Total net assets	\$4,043,843	\$4,331,094	\$230,603	\$236,307	\$4,274,446	\$4,567,401

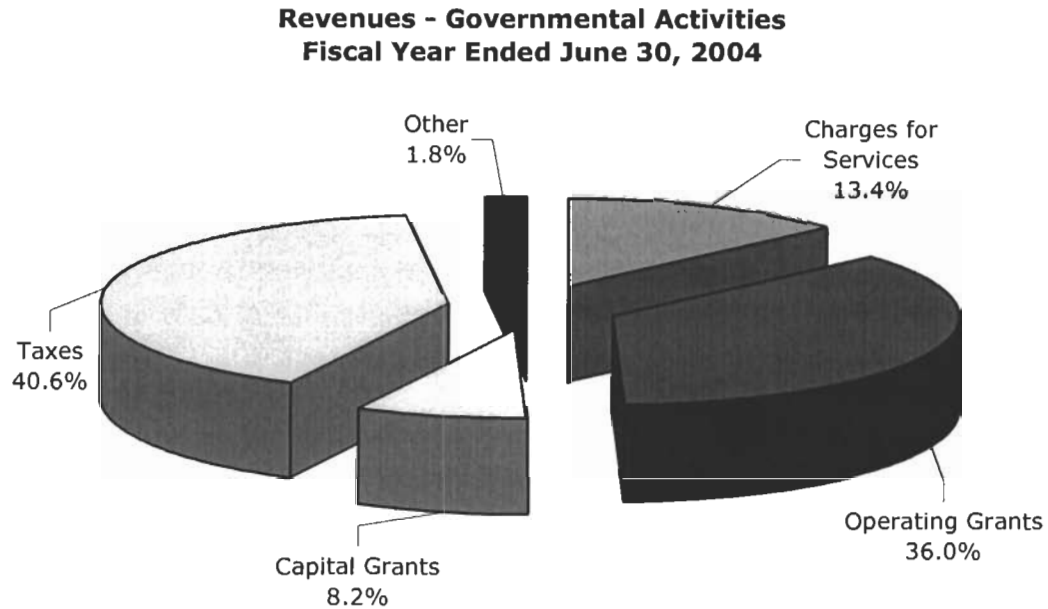
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

**Changes in Net Assets**  
**For Fiscal Year Ended June 30**  
*(expressed in thousands)*

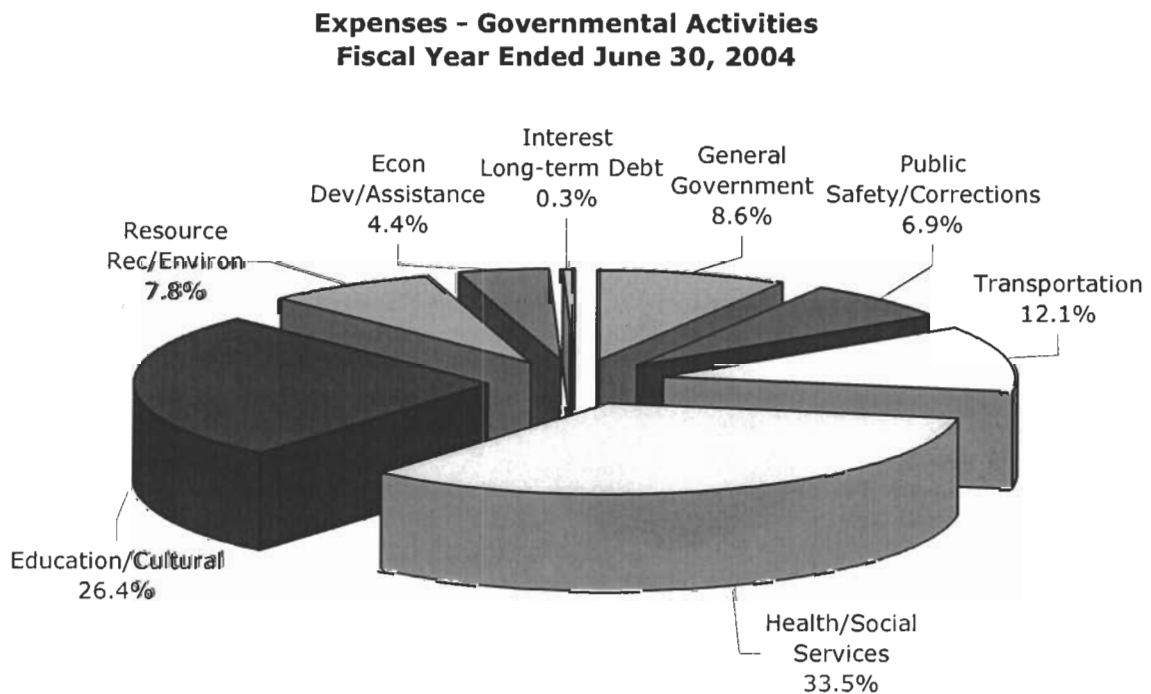
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 415,033	\$ 472,445	\$206,233	\$220,903	\$ 621,266	\$ 693,348
Operating grants	1,170,703	1,271,515	10,442	55,487	1,181,145	1,327,002
Capital grants	308,021	290,045	510	177	308,531	290,222
General revenues						
Taxes	1,260,398	1,436,571	13,650	14,621	1,274,048	1,451,192
Other	267,080	64,531	21,778	10,275	288,858	74,806
Total revenues	3,421,235	3,535,107	252,613	301,463	3,673,848	3,836,570
<b>Expenses:</b>						
General government	280,740	285,781	-	-	280,740	285,781
Public safety/corrections	194,885	227,786	-	-	194,885	227,786
Transportation	286,181	400,034	-	-	286,181	400,034
Health/social services	1,023,893	1,109,045	-	-	1,023,893	1,109,045
Educational/cultural	899,575	874,846	-	-	899,575	874,846
Resource/rec/envIRON	234,848	258,057	-	-	234,848	258,057
Econ dev/assistance	169,270	144,687	-	-	169,270	144,687
Interest on long-term debt	19,910	15,088	-	-	19,910	15,088
Unemployment Insurance	-	-	92,639	93,882	92,639	93,882
Liquor Stores	-	-	40,097	42,827	40,097	42,827
State Lottery	-	-	27,320	28,669	27,320	28,669
Economic Dev Bonds	-	-	2,426	2,197	2,426	2,197
Hail Insurance	-	-	2,029	1,949	2,029	1,949
Gen Govt Services	-	-	14,177	48,395	14,177	48,395
Prison Funds	-	-	4,515	4,244	4,515	4,244
MUS Group Insurance	-	-	35,906	39,690	35,906	39,690
MUS Workers Comp	-	-	-	2,552	-	2,552
Total expenses	3,109,302	3,315,324	219,109	264,405	3,328,411	3,579,729
Increase (decrease) in net assets before transfers	311,933	219,783	33,504	37,058	345,437	256,841
Transfers	32,366	30,812	(32,366)	(30,812)	-	-
Change in net assets	344,299	250,595	1,138	6,246	345,437	256,841
Net assets, beg of year (restated)	3,699,544	4,080,499	229,465	230,061	3,929,009	4,310,560
Net assets, end of year	<u>\$4,043,843</u>	<u>\$4,331,094</u>	<u>\$230,603</u>	<u>\$236,307</u>	<u>\$4,274,446</u>	<u>\$4,567,401</u>

## Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year:

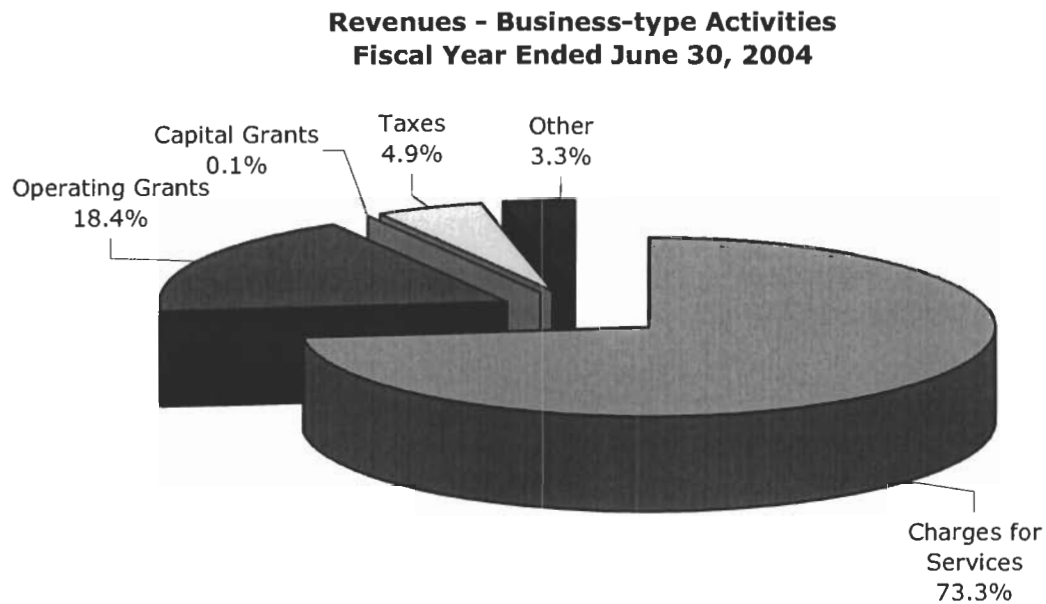


The following chart depicts expenses of the governmental activities for the fiscal year:

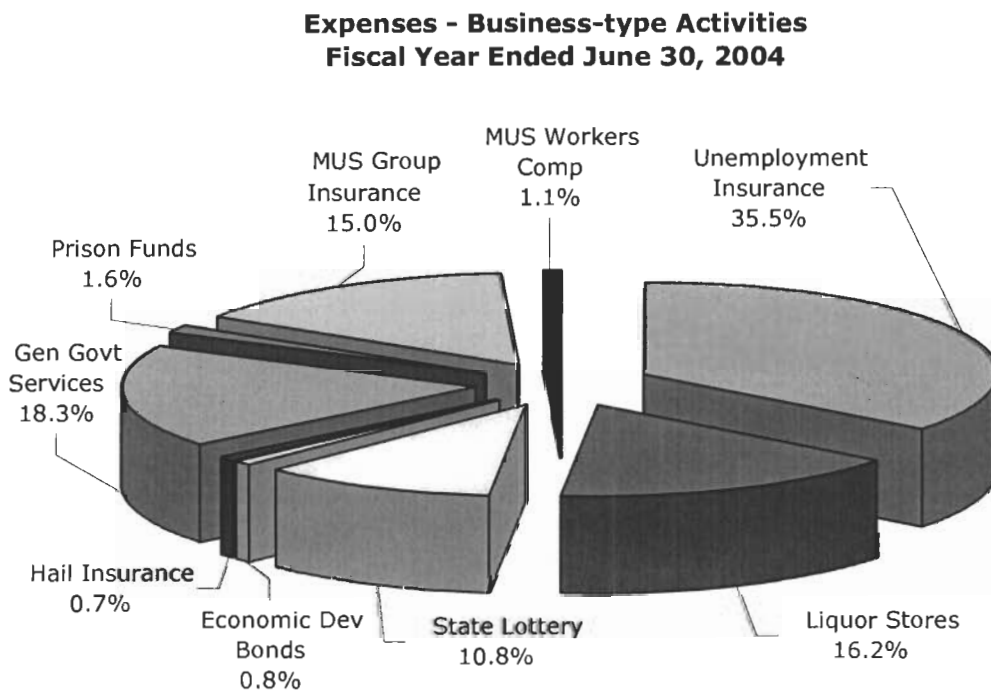


### Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



## FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As the State completed the year, its governmental funds reported fund balances of \$2.3 billion. Of this total amount, \$66.6 million (or 2.9%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending as it has already been dedicated for various commitments.

### **General Fund**

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$133 million. Unreserved fund balance increased during the fiscal year by \$89.8 million, primarily because of lower corporation and property tax collections and interest rates.

### General Fund Budgetary Highlights

Significant Under Spending Of Appropriation Authority - FMAP Rate "Enhancement" – Subsection 401(a) of TRRA provides temporary, with respect to certain expenditures by eligible states, increases in the federal medical assistance percentage (FMAP), which is the federal matching rate for states' medical assistance expenditures under their Medicaid program. Under this provision, the increased FMAP is available only for a period of five calendar quarters, the last two quarters of federal fiscal year 2003, and the first three quarters of federal fiscal year 2004.

The FMAP percentage for these five quarters increased by 3%. The result of this "windfall" was that the State's payment for this period was less than it would have been without this adjustment. The savings realized to the General Fund in fiscal year 2004 from the lower match rate for Montana is reflected in a lower base budget amount of Medicaid expenditures; the savings netted out to be approximately \$14 million.

Supplemental Development – Two areas received supplementals to augment their fiscal year 2004 appropriations. The largest was the District Court reimbursement which overspent its appropriation by \$1.9 million. The other area of over expenditure is K-12 base aid which spent \$1 million more than original estimates.

Higher Revenues Than Anticipated – Almost all of the fiscal year 2004 ending fund balance is due to revenue exceeding expectations in fiscal year 2004 and fiscal year 2005. Total General Fund collections were forecast to increase by \$57.9 million (4.6%) from fiscal year 2003 to fiscal year 2004. Twenty-five of the thirty-seven revenue sources ended the year above the forecast. Four revenue sources were more than \$5 million higher than the forecast. They are individual income tax (\$47.3 million higher), video gaming tax (\$5.7 million higher), U.S. mineral royalties (\$5.3 million higher), and oil and gas tax (\$14.4 million higher). Income tax collections were higher than forecast because of strong wage and salary growth and federal tax law changes. Oil and gas tax and U.S. mineral royalties are higher than forecast because natural gas and oil prices are higher than expected. In total, fiscal year 2004 revenues exceeded the forecast by nearly \$71 million, an 11% increase from fiscal year 2003.

### General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 3% from fiscal year 2003 to fiscal year 2004. Revenues from various sources for fiscal year 2004, and the amount and percentage of increases and decreases in relation to prior year revenues, are shown in the following table (amounts in thousands):

Revenue Source	Amount	2004 Percent of Total	Increase (Decrease) from 2003	Percent Increase (Decrease)
Licenses/permits	\$ 240,612	6.8%	\$ 30,001	14.2%
Taxes	1,416,392	40.3	166,211	13.3
Chg srv/fines/forfeits/settle	200,590	5.7	42,651	27.0
Investment earnings	49,363	1.4	(155,043)	(75.9)
Securities lending income	2,032	0.1	82	4.2
Sales doc/merch/property	18,022	0.5	4,918	37.5
Rentals/leases/royalties	31,687	0.9	3,363	11.9
Contributions/premiums	7,608	0.2	675	9.7
Grants/contracts/donations	22,868	0.7	(1,692)	(6.9)
Federal	1,480,812	42.1	26,647	1.8
Federal indir cost rcvly	37,822	1.1	3,939	11.6
Other revenues	6,412	0.2	(17,632)	(73.3)
Total revenues	<u>\$3,514,220</u>	<u>100.0</u>	<u>104,120</u>	

An explanation of significant changes by revenue source follows:

Licenses and Permits – This was primarily caused by State Special Revenue Fund increases of \$6 million for Fish, Wildlife and Parks and \$10.9 million for Public Health and Human Services, and General Fund increases of \$10.6 million for Justice.

Taxes – The General Fund increase in revenues was primarily due to (1) a \$70.7 million increase in individual income tax receipts, (2) a \$23.6 million increase in corporation tax receipts, (3) a \$6.3 million decrease in property tax receipts, (4) a \$19 million increase in natural resource taxes, (5) a \$5 million increase in video gaming taxes, (6) a \$5.1 million increase in insurance premium taxes, and (7) a \$26.6 million increase in cigarette/tobacco taxes.

Charges for Services/Fines/Forfeits/Settlements – The increase in this Federal Special Revenue Fund revenue source primarily related to a \$39.4 million increase in fire suppression reimbursements.

Investment Earnings – The decrease in revenue across all major funds was due to the lower interest rates in fiscal year 2004 and a soft investment market.

Federal – This was primarily caused by an increase in Federal Special Revenue Fund Medicaid reimbursements for Health and Human Services.

Other Revenues -- The decrease in revenue was primarily due to the expected decrease in the State Fund (Old) transfer to the General Fund as a result of the 2003 Legislature eliminating the 10% excess reserve requirement. This was a one-time transfer that occurred in fiscal year 2003, and with a very small residual impact on fiscal year 2004.

Total expenditures for all general governmental functions increased 5.2% from fiscal year 2003 to fiscal year 2004. Expenditures by function for fiscal year 2004, and the amount and percentage of increases or decreases in relation to the prior year amounts, are shown in the following table:

<b>Expenditure Function</b>	<b>Amount (in thousands)</b>	<b>2004 Percent of Total</b>	<b>Increase (Decrease) from 2003</b>	<b>Percent Increase (Decrease)</b>
General government	\$ 252,486	7.2%	\$ 12,779	5.3%
Public safety/corrections	208,593	6.0	19,291	10.2
Transportation	529,555	15.1	18,689	3.7
Health/social services	1,114,064	31.8	95,731	9.4
Education/cultural	898,988	25.7	4,397	0.5
Resource/recreation/environment	250,590	7.2	66,231	35.9
Economic development/assistance	144,381	4.1	(23,626)	(14.1)
Securities lending	1,784	0.1	50	2.9
Debt service	40,029	1.1	(17,139)	(30.0)
Capital outlay	60,310	1.7	(2,763)	(4.4)
<b>Total expenditures</b>	<b>\$3,500,780</b>	<b>100.0</b>	<b>\$173,640</b>	

An explanation of significant changes by expenditure function follows:

Public Safety/Corrections – Justice increased their General Fund program expenditures by \$3.4 million as a result of the fiscal year 2003 one-year increase of funding from the State Special Revenue Fund. This was funded from the General Fund in fiscal year 2004.

Corrections increased their General Fund expenditures by \$8.2 million.

Military Affairs increased General Fund expenditures primarily due to a one-year increase in funding from the State Special Revenue Fund in fiscal year 2003. The return to funding the State match for the Challenge program from the General Fund in fiscal year 2004 caused a \$1.2 million increase in expenditures. Military Affairs also experienced a \$2 million increase in Federal Special Revenue Fund expenditures primarily as a result of Federal Homeland Security grant expenditures.

Health/Social Services – Public Health and Human Services experienced an increase in the State and Federal Special Revenue Funds of \$42.2 million and \$71.3 million, respectively, primarily due to increased Medicaid matching requirements and payments to providers.

Resource/Recreation/Environment – The expenditure increase of \$13.1 million and \$69.1 million in the Natural Resource State and Federal Special Revenue Funds, respectively, was primarily related to 2003-2004 forest fire season expenditures.

Economic Development/Assistance – The expenditure decrease of \$29.4 million in the Federal Special Revenue Fund was primarily caused by the movement of the Section 8 Housing program to the enterprise fund type.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$4.1 billion, net of accumulated depreciation of \$1.7 billion, leaving a net book value of \$2.4 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 8% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.



### Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from \$227.6 million at June 30, 2003, to \$219.6 million at June 30, 2004.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

	<b>Amount</b> <i>(in thousands)</i>	<b>Ratio Debt to Assessed Value (1)</b>	<b>State Debt Per Capita (2)</b>
General obligation debt	\$219,645	0.44%	\$239.26

(1) Assessed value is based on tax year.

(2) Based on a 2003 estimated Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

### ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.3% in the second quarter of 2004, which is an increase from a rate of 4% during the second quarter of 2003. This compares favorably with the nation's average unemployment rate of 5.5% during the same time period.

The 58<sup>th</sup> Legislative Session adjourned on April 26, 2003, with a projected General Fund balance for the 2005 biennium of \$46.2 million. During fiscal year 2004, economic conditions improved significantly with the General Fund balance, as of June 30, 2004, ending at the \$141.8 million level. This improving economic outlook is projected to continue through the end of fiscal year 2005 with a projected ending General Fund balance of \$209 million.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

# STATEMENT OF NET ASSETS

JUNE 30, 2004

(expressed in thousands)

	PRIMARY GOVERNMENT				
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT	
	ACTIVITIES	ACTIVITIES	TOTAL	UNITS	
ASSETS					
Cash/cash equivalents (Note 3)	\$ 554,908	\$ 228,381	\$ 783,289	\$	182,704
Receivables (net)	247,490	33,025	280,515		68,513
Due from primary government	-	-	-		2,325
Due from other governments	153,711	222	153,933		23,016
Due from component units	1,692	1,440	3,132		764
Internal balances	(2,029)	2,029	-		-
Inventories	26,454	6,876	33,330		4,529
Advances to component units	8,957	4,872	13,829		-
Long-term loans/notes receivable	212,258	38,424	250,682		624,882
Equity in pooled investments (Note 3)	1,259,815	-	1,259,815		4,936
Investments (Note 3)	289,935	26,952	316,887		1,031,500
Securities lending collateral (Note 3)	192,909	521	193,430		154,859
Deferred charges	1,930	1,543	3,473		6,284
Restricted assets:					
Cash/cash equivalents (Note 3)	-	-	-		5,669
Investments (Note 3)	-	4,394	4,394		8,120
Capital assets (net) (Note 5)	2,409,128	8,925	2,418,053		493,175
Other assets	4,088	1,873	5,961		12,262
Total assets	5,361,246	359,477	5,720,723		2,623,538
LIABILITIES					
Accounts payable	353,892	6,825	360,717		45,507
Lottery prizes payable	-	2,812	2,812		-
Due to primary government	-	-	-		3,132
Due to other governments	3,102	292	3,394		10,947
Due to component units	2,324	1	2,325		764
Advances from primary government	-	-	-		13,829
Deferred revenue	40,318	3,497	43,815		24,503
Amounts held in custody for others	6,997	614	7,611		21,292
Securities lending liability (Note 3)	192,909	521	193,430		154,859
Other liabilities	11,127	-	11,127		5,654
Short-term debt (Note 11)	-	90,555	90,555		-
Long-term liabilities (Note 11):					
Due within one year	82,814	8,157	90,971		150,738
Due in more than one year	336,669	9,896	346,565		1,318,305
Total liabilities	1,030,152	123,170	1,153,322		1,749,530

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 2,250,177	\$ 8,925	\$ 2,259,102	\$ 270,297
Restricted for:				
Transportation	47,894	-	47,894	-
Fish, wildlife, and parks	60,417	-	60,417	-
Federal grants	26,896	-	26,896	-
Debt service/construction	-	-	-	21,538
Unemployment compensation	-	191,032	191,032	-
Funds held as permanent investments:				
Nonexpendable	1,302,866	-	1,302,866	163,833
Expendable	44,433	-	44,433	-
Housing authority	-	-	-	131,478
Resource/environment	334,877	-	334,877	-
Other purposes	40,705	21,441	62,146	76,241
Unrestricted	222,829	14,909	237,738	210,621
Total net assets	\$ 4,331,094	\$ 236,307	\$ 4,567,401	\$ 874,008

*The notes to the financial statements are an integral part of this statement.*

# STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	\$ 285,781	\$ 57,384	\$ 64,377	\$ -	\$ (164,020)
Public safety/corrections	227,786	159,397	42,047	-	(26,342)
Transportation	400,034	33,943	34,534	289,773	(41,784)
Health/social services	1,109,045	32,983	814,807	-	(261,255)
Education/cultural	874,846	28,922	152,437	272	(693,215)
Resource/recreation/environment	258,057	137,714	88,941	-	(31,402)
Economic development/assistance	144,687	22,102	74,372	-	(48,213)
Interest on long-term debt	15,088	-	-	-	(15,088)
Total governmental activities	3,315,324	472,445	1,271,515	290,045	(1,281,319)
Business-type activities:					
Unemployment Insurance	93,882	67,873	18,854	-	(7,155)
Liquor Stores	42,827	49,521	-	-	6,694
State Lottery	28,669	36,740	-	-	8,071
Economic Development Bonds	2,197	8	2,244	-	55
Hail Insurance	1,949	3,748	-	-	1,799
General Government Services	48,395	13,197	34,389	177	(632)
Prison Funds	4,244	5,140	-	-	896
MUS Group Insurance	39,690	42,252	-	-	2,562
MUS Workers Compensation	2,552	2,424	-	-	(128)
Total business-type activities	264,405	220,903	55,487	177	12,162
Total primary government	\$ 3,579,729	\$ 693,348	\$ 1,327,002	\$ 290,222	\$ (1,269,157)
Component units:					
Authorities:					
Housing Authority	\$ 40,995	\$ 228	\$ 42,791	\$ -	\$ 2,024
Facility Finance Authority	272	312	-	-	40
State Compensation Insurance (New Fund)	176,864	139,481	-	-	(37,383)
State Compensation Insurance (Old Fund)	14,055	-	-	-	(14,055)
State University System:					
Montana State University	354,743	137,352	132,922	8,141	(76,328)
University of Montana	279,937	121,494	92,757	4,414	(61,272)
Total component units	\$ 866,866	\$ 398,867	\$ 268,470	\$ 12,555	\$ (186,974)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,281,319)	\$ 12,162	\$ (1,269,157)	\$ (186,974)
General revenues:				
Taxes:				
Property	164,505	-	164,505	-
Fuel	198,332	-	198,332	-
Natural resource	131,053	-	131,053	-
Individual income	619,043	-	619,043	-
Corporate income	69,685	-	69,685	-
Other	253,953	14,621	268,574	71
Settlements	25,181	-	25,181	-
Unrestricted investment earnings	32,734	319	33,053	34,070
Payment from State of Montana	-	-	-	158,331
Gain on sale of capital assets	204	-	204	126
Miscellaneous	6,412	9,956	16,368	-
Contributions to term and permanent endowments	-	-	-	11,026
Transfers	30,812	(30,812)	-	-
Total general revenues, contributions, and transfers	1,531,914	(5,916)	1,525,998	203,624
Change in net assets	250,595	6,246	256,841	16,650
Total net assets - July 1 - as previously reported	4,043,843	230,603	4,274,446	867,003
Prior period adjustments (Note 2)	36,656	(542)	36,114	(9,645)
Total net assets - July 1 - as restated	4,080,499	230,061	4,310,560	857,358
Total net assets - June 30	\$ 4,331,094	\$ 236,307	\$ 4,567,401	\$ 874,008

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
JUNE 30, 2004  
(expressed in thousands)

	SPECIAL REVENUE			PERMANENT				
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL	
ASSETS								
Cash/cash equivalents (Note 3)	\$ 126,209	\$ 229,620	\$ 59,667	\$ 52,889	\$ 23,261	\$ 32,983	\$ 524,629	
Receivables (net) (Note 4)	150,467	64,857	9,436	7,856	5,977	5,259	243,852	
Interfund loans receivable (Note 12)	44,336	41,621	244	-	-	-	86,201	
Due from other governments	18	823	152,867	-	-	-	153,708	
Due from other funds (Note 12)	18,645	24,157	1,438	1,854	276	1,241	47,611	
Due from component units	539	801	77	74	-	57	1,548	
Inventories	2,665	22,968	-	-	-	-	25,633	
Equity in pooled investments (Note 3)	-	211,566	-	441,728	427,383	179,139	1,259,816	
Long-term loans/notes receivable	47	178,825	352	-	-	33,034	212,258	
Advances to other funds (Note 12)	100	11,583	100	52,469	-	3,002	67,254	
Advances to component units	-	-	-	8,957	-	-	8,957	
Investments (Note 3)	-	109,505	1,114	161,695	-	13,345	285,659	
Securities lending collateral (Note 3)	-	44,621	-	60,959	58,979	27,332	191,891	
Other assets	2,269	842	441	-	-	-	3,552	
Total assets	\$ 345,295	\$ 941,789	\$ 225,736	\$ 788,481	\$ 515,876	\$ 295,392	\$ 3,112,569	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable (Note 4)	122,765	81,512	112,060	-	5,842	2,833	325,012	
Interfund loans payable (Note 12)	-	19,801	63,880	42	-	630	84,353	
Due to other governments	297	751	2,054	-	-	-	3,102	
Due to other funds (Note 12)	8,839	7,584	3,861	7,107	13,593	3,153	44,137	
Due to component units	15,325	597	1,164	-	466	49	17,601	
Advances from other funds (Note 12)	-	61,328	893	-	-	10,805	73,026	
Deferred revenue	52,061	29,068	10,025	-	-	-	91,154	
Amounts held in custody for others	4,207	2,250	403	-	94	-	6,954	
Securities lending liability (Note 3)	-	44,621	-	60,959	58,979	27,332	191,891	
Other liabilities	25	118	-	-	-	-	143	
Total liabilities	203,519	247,630	194,340	68,108	78,974	44,802	837,373	
Fund balances:								
Reserved for:								
Encumbrances	5,017	15,866	14,158	-	-	339	35,380	
Inventories	2,665	22,968	-	-	-	-	25,633	
Long-term loans/notes receivable	47	178,825	352	-	-	33,034	212,258	
Advances to other funds/component units	100	11,583	100	61,426	-	3,002	76,211	
Special revenue (Note 14)	-	538,500	27,057	-	-	-	565,557	
Debt service	-	-	-	-	-	6,521	6,521	
Trust principal (Note 14)	-	-	-	658,947	436,902	190,030	1,285,879	
Escheated property	1,074	37	-	-	-	-	1,111	
Unreserved, designated, reported in nonmajor (Note 1):								
Debt service funds	-	-	-	-	-	9,253	9,253	
Unreserved, undesignated	132,873	(73,620)	(10,271)	-	-	-	48,982	
Unreserved, undesignated, reported in nonmajor:								
Debt service funds	-	-	-	-	-	(2,250)	(2,250)	
Capital projects funds	-	-	-	-	-	10,661	10,661	
Total fund balances	141,776	694,159	311,396	720,373	436,902	250,590	2,275,196	
Total liabilities and fund balances	\$ 345,295	\$ 941,789	\$ 225,736	\$ 788,481	\$ 515,876	\$ 295,392	\$ 3,112,569	

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2004

(expressed in thousands)

Total fund balances for governmental funds \$ 2,275,196

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore not reported in the funds.

Land	315,485	
Land improvements	11,852	
Buildings/improvements	325,966	
Equipment	70,300	
Infrastructure	2,947,719	
Other capital assets	73,416	
Construction in progress	176,171	
Intangible assets	18,735	
Less accumulated depreciation	<u>(1,614,481)</u>	
Total capital assets		2,325,163

Certain tax revenues are earned, but not available and therefore deferred  
in the funds. 51,804

Internal service funds are used by management to charge the costs of  
certain activities, such as insurance and central computer services, to  
individual funds. The assets and liabilities of the internal service funds  
are included in the governmental activities in the statement of net assets. 70,881

Deferred issue costs are reported as current expenditures in the funds.  
These costs are amortized over the life of the bonds and included  
in governmental activities in the statement of net assets. 1,930

Long-term liabilities, including bonds payable, are not due and payable in the  
current period and therefore are not reported in the funds.

Accrued interest	(5,003)	
Lease/installment purchase payable	(2,180)	
Bonds/notes payable (net)	(305,100)	
Compensated absences payable	(70,319)	
Early retirement benefits payable	(216)	
Arbitrage rebate tax payable	(78)	
Other liabilities	<u>(10,984)</u>	
Total long-term liabilities		<u>(393,880)</u>

Net assets of governmental activities \$ 4,331,094

*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(expresses in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
<b>REVENUES</b>							
Licenses/permits	\$ 130,807	\$ 109,069	\$ -	\$ -	\$ 365	\$ 371	\$ 240,612
Taxes:							
Natural resource	52,820	57,385	-	15,830	-	4,698	130,733
Individual income	602,262	234	-	-	-	-	602,496
Corporate income	67,412	-	-	-	-	-	67,412
Property	164,485	20	-	-	-	-	164,505
Fuel	-	198,318	-	-	-	14	198,332
Other (Note 1)	206,180	44,954	13	-	-	1,767	252,914
Charges for services/fines/forfeits/settlements	42,354	74,836	71,342	-	-	12,058	200,590
Investment earnings	7,119	7,909	247	17,666	6,633	9,789	49,363
Securities lending income	374	378	-	529	524	227	2,032
Sale of documents/merchandise/property	319	4,456	3	-	11,147	2,097	18,022
Rentals/leases/royalties	73	439	-	-	31,058	117	31,687
Contributions/premiums	-	7,608	-	-	-	-	7,608
Grants/contracts/donations	3,293	19,374	99	-	(7)	109	22,868
Federal	28,642	709	1,451,461	-	-	-	1,480,812
Federal indirect cost recoveries	156	34,280	3,386	-	-	-	37,822
Other revenues	2,104	4,216	77	-	-	15	6,412
Total revenues	1,308,400	564,185	1,526,628	34,025	49,720	31,262	3,514,220
<b>EXPENDITURES</b>							
Current:							
General government	168,545	72,342	6,647	-	-	4,952	252,486
Public safety/corrections	128,176	39,505	38,469	-	-	2,443	208,593
Transportation	170	239,612	289,773	-	-	-	529,555
Health/social services	250,570	54,077	809,417	-	-	-	1,114,064
Education/cultural	662,458	65,809	170,719	-	-	2	898,988
Resource/recreation/environment	20,066	101,367	125,800	-	2,900	457	250,590
Economic development/assistance	21,278	54,793	68,310	-	-	-	144,381
Debt service:							
Principal retirement	620	480	239	-	-	23,878	25,217
Interest/fiscal charges	1,158	703	21	-	-	12,930	14,812
Capital outlay	1,094	30,151	12,501	-	-	16,564	60,310
Securities lending	324	328	-	468	463	201	1,784
Total expenditures	1,254,459	659,167	1,521,896	468	3,363	61,427	3,500,780
Excess of revenue over (under) expenditures	53,941	(94,982)	4,732	33,557	46,357	(30,165)	13,440
<b>OTHER FINANCING SOURCES (USES)</b>							
Bonds issued	-	2,665	-	-	-	3,125	5,790
Refunding bonds issued	-	11,510	-	-	-	8,725	20,235
Bond premium	-	111	-	-	-	367	478
Payment to refunding bond escrow agent	-	(11,271)	-	-	-	(8,943)	(20,214)
Inception of lease/installment contract	648	127	522	-	-	-	1,297
General capital asset sale proceeds	76	194	-	-	-	-	270
Transfers in (Note 12)	66,401	125,763	4,317	3,405	-	39,752	239,638
Transfers out (Note 12)	(29,624)	(23,516)	(27,665)	(43,969)	(65,818)	(19,574)	(210,166)
Total other financing sources (uses)	37,501	105,583	(22,826)	(40,564)	(65,818)	23,452	37,328
Net change in fund balances	91,442	10,601	(18,094)	(7,007)	(19,461)	(6,713)	50,768
Fund balances - July 1 - as previously reported	51,121	687,063	51,500	727,380	456,363	257,304	2,230,731
Prior period adjustments (Note 2)	(833)	(5,622)	(2,010)	-	-	(1)	(8,466)
Fund balances - July 1 - as restated	50,288	681,441	49,490	727,380	456,363	257,303	2,222,265
Increase (decrease) in inventories	46	2,117	-	-	-	-	2,163
Fund balances - June 30	\$ 141,776	\$ 694,159	\$ 31,396	\$ 720,373	\$ 436,902	\$ 250,590	\$ 2,275,196

The notes to the financial statements are an integral part of this statement.



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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

JUNE 30, 2004

(expressed in thousands)

Net change in fund balances - total governmental funds \$ 50,768

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	260,182	
Depreciation expense	(113,796)	
Excess of capital outlay over depreciation expense		146,386

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (5,757)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. 364

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. 2,163

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 20,190

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 21,619

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:

Bonds issued	(5,790)	
Refunding bonds issued	(20,235)	
Bond premium	(478)	
Payment to refunding bond escrow agent	20,214	
Capital lease financing	(1,297)	
Principal retirement	25,217	
Issuance costs deferral	640	
Bond issuance costs amortization	(156)	
Bond refunding loss amortization	(647)	
Bond discount amortization	(21)	
Bond premium amortization	187	
Total long-term debt proceeds/repayment		17,634

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(17)	
Compensated absences	(3,788)	
Early retirement benefits	102	
Arbitrage rebate tax	68	
Other liabilities	863	
Total additional expenditures		<u>(2,772)</u>
Change in net assets of governmental activities		<u>\$ 250,595</u>

*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
JUNE 30, 2004  
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
<b>ASSETS</b>					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 185,863	\$ 7,535	\$ 34,983	\$ 228,381	\$ 30,279
Receivables (net) (Note 4)	6,211	9,912	16,855	32,978	3,244
Interfund loans receivable (Note 12)	-	-	93	93	574
Due from other governments	-	-	222	222	3
Due from other funds (Note 12)	1	3,142	232	3,375	6,181
Due from component units	-	1,196	268	1,464	529
Inventories	-	-	6,876	6,876	821
Short-term investments	-	23,243	731	23,974	-
Securities lending collateral (Note 3)	-	-	521	521	1,016
Other current assets	-	-	256	256	534
Total current assets	192,075	45,028	61,037	298,140	43,181
Noncurrent assets:					
Restricted investments	-	4,394	-	4,394	-
Advances to other funds (Note 12)	-	9,182	255	9,437	-
Advances to component units	-	6,262	-	6,262	-
Long-term investments (Note 3)	-	237	2,741	2,978	4,277
Long-term notes/loans receivable	-	36,174	654	36,828	-
Deferred charges	-	1,506	37	1,543	-
Other long-term assets	-	-	1,617	1,617	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	1,387	1,387	95
Buildings/improvements	-	-	6,098	6,098	2,852
Equipment	-	12	9,865	9,877	175,608
Infrastructure	-	-	884	884	-
Construction in progress	-	-	255	255	2,898
Intangible assets	-	-	941	941	1,703
Less accumulated depreciation	-	(8)	(11,309)	(11,317)	(99,428)
Total capital assets	-	4	8,921	8,925	83,964
Total noncurrent assets	-	57,759	14,225	71,984	88,241
Total assets	192,075	102,787	75,262	370,124	131,422

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
JUNE 30, 2004  
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES --
	UNEMPLOYMENT	DEVELOPMENT	NONMAJOR	TOTAL	INTERNAL
	INSURANCE	BONDS			SERVICE
					FUNDS
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable (Note 4)	\$ 54	\$ 627	\$ 6,142	\$ 6,823	\$ 8,538
Lottery prizes payable	-	-	1,529	1,529	-
Interfund loans payable (Note 12)	1	-	295	296	2,219
Due to other governments	-	-	292	292	-
Due to other funds (Note 12)	657	6	9,690	10,353	2,653
Due to component units	-	-	1	1	50
Deferred revenue	-	18	3,479	3,497	968
Short-term debt (Note 11)	-	90,555	-	90,555	-
Lease/installment purchase payable (Note 10)	-	-	-	-	50
Bonds/notes payable - net (Note 11)	-	1,672	395	2,067	-
Amounts held in custody for others	331	99	184	614	45
Securities lending liability (Note 3)	-	-	521	521	1,016
Estimated insurance claims (Note 8)	-	-	5,341	5,341	14,063
Compensated absences payable (Note 11)	-	11	654	665	2,779
Arbitrage rebate tax payable	-	84	-	84	-
Total current liabilities	1,043	93,072	28,523	122,638	32,381
Long-term liabilities:					
Lottery prizes payable	-	-	1,283	1,283	-
Advances from other funds (Note 12)	-	-	-	-	3,461
Lease/installment purchase payable (Note 10)	-	-	-	-	102
Bonds/notes payable - net (Note 11)	-	4,615	1,260	5,875	-
Estimated insurance claims (Note 8)	-	-	3,402	3,402	22,690
Compensated absences payable (Note 11)	-	14	549	563	1,907
Arbitrage rebate tax payable	-	56	-	56	-
Total long-term liabilities	-	4,685	6,494	11,179	28,160
Total liabilities	1,043	97,757	35,017	133,817	60,541
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	-	4	8,921	8,925	83,812
Restricted for:					
Unemployment Compensation	191,032	-	-	191,032	-
Other Purposes	-	2,763	18,678	21,441	-
Unrestricted	-	2,263	12,646	14,909	(12,931)
Total net assets	\$ 191,032	\$ 5,030	\$ 40,245	\$ 236,307	\$ 70,881

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
<b>Operating revenues:</b>					
Charges for services	\$ -	\$ 8	\$ 96,641	\$ 96,649	\$ 92,488
Investment earnings	11,339	83	314	11,736	221
Securities lending income	-	-	5	5	4
Financing income	-	2,161	-	2,161	-
Contributions/premiums	67,873	-	56,185	124,058	100,442
Grants/contracts/donations	7,515	-	34,389	41,904	-
Taxes	-	-	14,621	14,621	3
Other operating revenues	9,402	-	750	10,152	1,404
Total operating revenues	96,129	2,252	202,905	301,286	194,562
<b>Operating expenses:</b>					
Personal services	-	186	9,317	9,503	32,822
Contractual services	-	33	10,130	10,163	15,232
Supplies/materials	-	7	43,317	43,324	18,124
Benefits/claims	93,882	-	81,442	175,324	70,931
Depreciation	-	2	1,397	1,399	10,438
Amortization	-	-	286	286	476
Utilities/rent	-	39	721	760	10,192
Communications	-	6	1,103	1,109	8,760
Travel	-	4	152	156	391
Repair/maintenance	-	1	346	347	7,141
Lottery prize payments	-	-	18,680	18,680	-
Interest expense	-	1,852	88	1,940	263
Securities lending expense	-	-	4	4	3
Arbitrage rebate tax	-	40	-	40	-
Dividend expense	-	-	353	353	-
Other operating expenses	-	27	1,324	1,351	2,345
Total operating expenses	93,882	2,197	168,660	264,739	177,118
Operating income (loss)	2,247	55	34,245	36,547	17,444
<b>Nonoperating revenues (expenses):</b>					
Gain (loss) on sale of capital assets	-	-	(44)	(44)	(523)
Federal indirect cost recoveries	-	-	-	-	3,450
Increase (decrease) value of livestock	-	-	378	378	-
Total nonoperating revenues (expenses)	-	-	334	334	2,927
Income (loss) before contributions and transfers	2,247	55	34,579	36,881	20,371
Capital contributions	-	-	218	218	420
Transfers in (Note 12)	-	-	3,452	3,452	2,167
Transfers out (Note 12)	(4,297)	-	(30,008)	(34,305)	(1,339)
Change in net assets	(2,050)	55	8,241	6,246	21,619
Total net assets - July 1 - as previously reported	193,632	4,975	31,996	230,603	48,122
Prior period adjustments (Note 2)	(550)	-	8	(542)	1,140
Total net assets - July 1 - as restated	193,082	4,975	32,004	230,061	49,262
Total net assets - June 30	\$ 191,032	\$ 5,030	\$ 40,245	\$ 236,307	\$ 70,881

The notes to the financial statements are an integral part of this statement.

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**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from sales and services	\$ 67,576	\$ 8	\$ 153,058	\$ 220,642	\$ 192,976
Payments to suppliers for goods and services	-	(117)	(90,621)	(90,738)	(62,070)
Payments to employees	-	(188)	(9,323)	(9,511)	(32,247)
Grant receipts	7,413	-	34,073	41,486	3,669
Cash payments for claims	(94,184)	-	(46,291)	(140,475)	(76,808)
Cash payments for prizes	-	-	(18,505)	(18,505)	-
Other operating revenues	7,511	-	534	8,045	1,499
Other operating payments	-	-	(353)	(353)	-
Net cash provided by (used for) operating activities	(11,684)	(297)	22,572	10,591	27,019
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Collection of taxes	-	-	14,623	14,623	-
Transfers to other funds	(4,273)	-	(28,960)	(33,233)	(534)
Transfers from other funds	-	-	3,760	3,760	1,638
Proceeds from interfund loans/advances	1	-	476	477	4,753
Payments of interfund loans/advances	-	-	(250)	(250)	(6,881)
Payment of external loan	-	-	(506)	(506)	-
Collection of principal and interest on loans	-	-	37	37	-
Payment of principal and interest on bonds and notes	-	(4,987)	(443)	(5,430)	(2,573)
Proceeds from issuance of bonds and notes	-	18,601	2,050	20,651	3,701
Payment of bond issuance costs	-	(401)	(46)	(447)	-
Net cash provided by (used for) noncapital financing activities	(4,272)	13,213	(9,259)	(318)	104
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition of capital assets	-	-	(452)	(452)	(14,459)
Proceeds from sale of capital assets	-	-	1	1	1,076
Principal and interest payments on bonds and notes	-	-	(1,145)	(1,145)	(2,495)
Net cash used for capital and related financing activities	-	-	(1,596)	(1,596)	(15,878)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	-	(28,132)	(2,520)	(30,652)	(2,946)
Proceeds from sales or maturities of investments	-	12,578	427	13,005	2,727
Proceeds from securities lending transactions	-	-	5	5	4
Interest and dividends on investments	11,339	373	364	12,076	436
Payment of securities lending costs	-	-	(4)	(4)	(3)
Collections of principal and interest on loans	-	29,032	-	29,032	-
Cash payment for loans	-	(29,924)	-	(29,924)	-
Arbitrage rebate tax	-	(71)	-	(71)	-
Net cash provided by (used for) investing activities	11,339	(16,144)	(1,728)	(6,533)	218
Net increase (decrease) in cash and cash equivalents	(4,617)	(3,228)	9,989	2,144	11,463
Cash and cash equivalents, July 1	190,480	10,763	24,994	226,237	18,816
Cash and cash equivalents, June 30	\$ 185,863	\$ 7,535	\$ 34,983	\$ 228,381	\$ 30,279

The notes to the financial statements are an integral part of this statement.



	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
<b>Reconciliation of operating income to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 2,247	\$ 55	\$ 34,243	\$ 36,545	\$	17,443
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>						
Depreciation	-	2	1,397	1,399		10,438
Amortization	-	-	286	286		476
Taxes	-	-	(14,621)	(14,621)		-
Interest expense	-	1,852	88	1,940		263
Securities lending expense	-	-	4	4		3
Investment Earnings	(11,339)	(83)	(314)	(11,736)		(221)
Securities lending income	-	-	(5)	(5)		(4)
Financing income	-	(2,161)	-	(2,161)		-
Federal indirect cost recoveries	-	-	-	-		3,450
Arbitrage rebate tax	-	40	-	40		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	(1,463)	-	277	(1,186)		(57)
Decr (incr) in due from other funds	2	-	(14)	(12)		1,037
Decr (incr) in due from component units	-	-	356	356		(138)
Decr (incr) in due from other governments	-	-	(200)	(200)		-
Decr (incr) in inventories	-	-	(402)	(402)		2
Decr (incr) in other assets	-	-	443	443		(487)
Incr (decr) in accounts payable	(1,120)	4	(530)	(1,646)		565
Incr (decr) in lottery prizes payable	-	-	(227)	(227)		-
Incr (decr) in due to other funds	(11)	-	(44)	(55)		147
Incr (decr) in due to component units	-	-	(1)	(1)		(1)
Incr (decr) in due to other governments	-	-	(197)	(197)		-
Incr (decr) in deferred revenue	-	-	(520)	(520)		(477)
Incr (decr) in amounts held in custody for others	-	-	92	92		(39)
Incr (decr) in compensated absences payable	-	(6)	(176)	(182)		280
Incr (decr) in estimated claims	-	-	2,637	2,637		(5,660)
Net cash provided by (used for) operating activities	\$ (11,684)	\$ (297)	\$ 22,572	\$ 10,591	\$	27,020
<b>Schedule of noncash transactions:</b>						
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	\$	1,084
Capital contributions from other funds	-	-	41	41		420
Capital contributions to other funds	-	-	-	-		(429)
Amortization of bond issuance costs	-	-	9	9		-
Incr (decr) in fair value of investments	-	(235)	(38)	(273)		(209)
Total noncash transactions	\$ -	\$ (235)	\$ 12	\$ (223)	\$	866

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
JUNE 30, 2004  
(expressed in thousands)

	<b>PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS</b>	<b>PRIVATE- PURPOSE TRUST FUNDS</b>	<b>INVESTMENT TRUST</b>	<b>AGENCY FUNDS</b>
<b>ASSETS</b>				
Cash/cash equivalents (Note 3)	\$ 201,468	\$ 2,179	\$ 601,911	\$ 118,489
Receivables (net):				
Accounts receivable	16,004	7	-	719
Interest	20,529	-	-	44,319
Due from primary government	15,329	-	-	-
Due from other PERB plans	379	-	-	-
Long-term loans/notes receivable	326	-	-	-
Advances to other PERB plans	86	-	-	-
Total receivables	52,653	7	-	45,038
Investments at fair value:				
Equity in pooled investments (Note 3)	5,611,716	-	-	-
Other investments (Note 3)	384,841	-	-	-
Total investments	5,996,557	-	-	-
Securities lending collateral (Note 3)	280,120	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(259)	-	-	-
Intangible assets	1,511	-	-	-
Total capital assets	1,597	-	-	-
Other assets	8	5,857	-	11,672
Total assets	6,532,403	8,043	601,911	175,199
<b>LIABILITIES</b>				
Accounts payable	895	8	-	51,070
Due to primary government	411	-	-	-
Due to other PERB plans	379	-	-	-
Due to other funds (Note 12)	24	-	-	-
Advances from primary government	1,390	-	-	-
Advances from other PERB plans	86	-	-	-
Advances from other funds (Note 12)	204	-	-	-
Deferred revenue	57	-	-	-
Amounts held in custody for others	-	-	-	124,129
Securities lending liability (Note 3)	280,120	-	-	-
Compensated absences payable	396	-	-	-
Total liabilities	283,962	8	-	175,199
<b>NET ASSETS</b>				
Held in trust for pension benefits and other purposes	\$ 6,248,441	\$ 8,035	\$ 601,911	\$ -

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(expressed in thousands)

	<b>PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS</b>	<b>PRIVATE- PURPOSE TRUST FUNDS</b>	<b>INVESTMENT TRUST</b>
<b>ADDITIONS</b>			
Contributions/premiums:			
Employer	\$ 130,627	\$ -	\$ -
Employee	141,584	-	-
Other contributions	17,988	-	1,099,337
Net investment earnings:			
Investment earnings	738,301	14	6,442
Administrative investment expense	(7,855)	-	-
Securities lending income	2,960	-	-
Securities lending expense	(2,412)	-	-
Charges for services	394	-	-
Other additions	136	2,142	-
Total additions	1,021,723	2,156	1,105,779
<b>DEDUCTIONS</b>			
Benefits	335,206	-	-
Refunds	18,738	-	-
Distributions	-	2,039	1,168,439
Administrative expenses:			
Personal services	2,320	-	-
Contractual services	2,059	4	-
Supplies/materials	75	-	-
Depreciation	610	-	-
Amortization	157	-	-
Utilities/rent	234	-	-
Communications	189	-	-
Travel	52	-	-
Repair/maintenance	43	-	-
Grants	-	3	-
Interest expense	46	-	-
Other operating expenses	316	-	-
Local assistance	12	-	-
Loss on capital assets	890	-	-
Transfers to ORP	188	-	-
Transfers to PERS-DCRP	1,295	-	-
Total deductions	362,430	2,046	1,168,439
Change in net assets	659,293	110	(62,660)
Net assets - July 1 - as previously reported	5,587,231	4,919	664,571
Prior period adjustments (Note 2)	1,917	3,006	-
Net assets - July 1 - as restated	5,589,148	7,925	664,571
Net assets - June 30	\$ 6,248,441	\$ 8,035	\$ 601,911

The notes to the financial statements are an integral part of this statement.

**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
JUNE 30, 2004  
(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
<b>ASSETS</b>				
Cash/cash equivalents (Note 3)	\$ 7,264	\$ 1,995	\$ 20,685	\$ 4,114
Receivables (net)	14,660	159	12,823	1,088
Due from primary government	1	-	1	-
Due from other governments	-	-	-	-
Due from component units	-	-	531	63
Inventories	-	-	-	-
Long-term loans/notes receivable	598,747	299	37	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	140,475	-	582,068	69,216
Securities lending collateral (Note 3)	-	-	141,060	13,249
Deferred charges	6,284	-	-	-
Restricted assets:				
Cash/cash equivalents (Note 3)	-	-	-	-
Investments (Note 3)	-	-	-	-
Capital assets (net) (Note 5)	76	-	2,349	-
Other assets	181	3	2,038	-
Total assets	767,688	2,456	761,592	87,730
<b>LIABILITIES</b>				
Accounts payable	3,339	12	8,157	614
Due to primary government	27	4	1,223	1
Due to other governments	-	-	-	-
Due to component units	5	-	63	531
Advances from primary government	-	-	-	-
Deferred revenue	-	-	5,977	-
Amounts held in custody for others	683	-	8,513	-
Securities lending liability (Note 3)	-	-	141,060	13,249
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	7,883	13	100,744	14,409
Due in more than one year	624,197	9	353,083	66,369
Total liabilities	636,134	38	618,820	95,173
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	76	-	2,349	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	131,478	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,418	140,423	(7,443)
Total net assets	\$ 131,554	\$ 2,418	\$ 142,772	\$ (7,443)

The notes to the financial statements are an integral part of this statement.

**STATE UNIVERSITY SYSTEM**

<b>MONTANA STATE UNIVERSITY</b>		<b>UNIVERSITY OF MONTANA</b>		<b>TOTAL</b>
\$	92,342	\$	56,304	\$ 182,704
	17,100		22,683	68,513
	1,191		1,132	2,325
	15,351		7,665	23,016
	147		23	764
	2,833		1,696	4,529
	17,033		8,766	624,882
	-		4,936	4,936
	103,737		136,004	1,031,500
	-		550	154,859
	-		-	6,284
	942		4,727	5,669
	5,396		2,724	8,120
	246,135		244,615	493,175
	5,477		4,563	12,262
	507,684		496,388	2,623,538
	17,439		15,946	45,507
	1,247		630	3,132
	8,255		2,692	10,947
	21		144	764
	8,786		5,043	13,829
	8,360		10,166	24,503
	3,918		8,178	21,292
	-		550	154,859
	3,147		2,507	5,654
	16,347		11,342	150,738
	117,013		157,634	1,318,305
	184,533		214,832	1,749,530
	153,889		113,983	270,297
	10,443		11,095	21,538
	73,848		89,985	163,833
	-		-	131,478
	33,236		43,005	76,241
	51,735		23,488	210,621
\$	323,151	\$	281,556	\$ 874,008

**COMBINING STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
<b>EXPENSES</b>	\$ 40,995	\$ 272	\$ 176,864	\$ 14,055
<b>PROGRAM REVENUES:</b>				
Charges for services	228	312	139,481	-
Operating grants and contributions	42,791	-	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	43,019	312	139,481	-
Net (expenses) program revenues	2,024	40	(37,383)	(14,055)
<b>GENERAL REVENUES:</b>				
Taxes:				
Other	-	-	3	68
Unrestricted investment earnings	-	40	17,037	349
Payment from State of Montana	-	-	-	-
Gain on sale of capital assets	-	-	22	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	-	40	17,062	417
Change in net assets	2,024	80	(20,321)	(13,638)
Total net assets - July 1 - as previously reported	129,530	2,338	163,093	6,195
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	129,530	2,338	163,093	6,195
Total net assets - June 30	\$ 131,554	\$ 2,418	\$ 142,772	\$ (7,443)

*The notes to the financial statements are an integral part of this statement.*

**STATE UNIVERSITY SYSTEM**

<b>MONTANA STATE UNIVERSITY</b>	<b>UNIVERSITY OF MONTANA</b>	<b>TOTAL</b>
\$ 354,743	\$ 279,937	\$ 866,866
137,352	121,494	398,867
132,922	92,757	268,470
8,141	4,414	12,555
278,415	218,665	679,892
(76,328)	(61,272)	(186,974)
-	-	71
3,817	12,827	34,070
93,454	64,877	158,331
104	-	126
5,715	5,311	11,026
103,090	83,015	203,624
26,762	21,743	16,650
301,808	264,039	867,003
(5,419)	(4,226)	(9,645)
296,389	259,813	857,358
\$ 323,151	\$ 281,556	\$ 874,008

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

#### A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

#### Discretely Presented Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

#### **Fiduciary Fund Component Units**

Teachers Retirement System (Pension Trust Fund) – This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The system is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The system is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement systems for the purpose of providing retirement, disability, death, and lump-sum payments to each system member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and

employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement systems including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due. Significant intrafund transactions and balances have been eliminated.

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

#### **Governmental Funds**

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

#### **Proprietary Funds**

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

#### **Fiduciary Funds**

Trust and Agency Funds – To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs. These include: (1) pension (and other employee benefit) trust funds, (2) agency funds, (3) investment trust funds, and (4) private-purpose trust funds.

The State reports the following funds as major as defined under GASB 34:

### **Major Governmental Funds**

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

### **Major Proprietary Funds**

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

### **D. Proprietary Activity Accounting and Financial Reporting**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

### **E. Cash/Cash Equivalents**

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

### **F. Receivables**

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

### **G. Inventories**

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

## **H. Restricted Assets**

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond indenture agreements.

## **I. Investments**

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

## **J. Equity in Pooled Investments**

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, higher education units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the Balance Sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

## **K. Capital Assets**

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of the primary government are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on

a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure is \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

## **L. Deferred Revenue**

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

## **M. Long-term Obligations**

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

## **N. Capital Leases**

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability is recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

## **O. Bond Discounts/Premiums/Issuance Costs**

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

## **P. Compensated Absences**

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2003, was 204.4 hours. For fiscal year 2004, 4,879.5 hours were contributed to the sick leave pool and 2,911.5 hours were withdrawn leaving a balance of 2,172.4 hours in the pool. No liability is reported in the accompanying financial statements because these hours

are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

## **Q. Advances to Other Funds**

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

## **R. Fund Balance**

In the fund financial statements, reservations represent those portions of fund balance or net assets not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance in relation to bonds payable.

## **S. Property Taxes**

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

## T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Video gaming	\$ 50,733	\$ -	\$ -	\$ 50,733
Insurance premium	52,257	-	-	52,257
Inheritance	10,265	-	-	10,265
University system millage	981	10,963	-	11,944
Cigarette/tobacco	39,619	3,877	1,767	45,263
Accommodations	9,684	13,941	-	23,625
Telephone license	20,789	-	-	20,798
Alcoholic beverage	4,356	1,648	-	6,004
Electrical energy	8,106	-	-	8,106
Public contractor	2,120	-	-	2,120
Livestock	-	3,572	-	3,572
Public Service Commission	-	2,836	-	2,836
Freight line	1,568	-	-	1,568
Fire protection	3,070	2,403	-	5,473
Agriculture sales	-	2,739	-	2,739
Consumer Counsel	-	1,314	-	1,314
Car rental	2,486	-	-	2,486
Light vehicle registration	-	1,429	-	1,429
Miscellaneous	146	232	-	378
Total other taxes	\$206,180	\$44,954	\$1,767	\$252,901

## NOTE 2. OTHER ACCOUNTING ISSUES

### A. Restatement of Beginning Fund Balances/Net Assets

For the year ended June 30, 2004, the State implemented Statement 39 of the Governmental Accounting Standards Board. As a result of implementing this statement, the State's university component units began reporting their significant fund-raising foundations. The prior year net assets of the fund-raising foundations have been reported as an increase to beginning net assets of the universities as follows: Montana State University, \$96,878,000 and University of Montana, \$126,817,000.

### B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Net Assets, and related to various capital asset corrections.

### C. Fund Reorganization

For reporting purposes, several small funds were combined as follows:

Internal Service Funds – FWP Warehouse Inventory, FWP Office Supply, Statewide Fueling Network, and Procurement Card Purchases were combined into the Other Internal Services fund.

Nonmajor Enterprise Funds – Montana Career Information System, Judiciary Law Library, Department of Agriculture, Advanced Drivers Education, and FWP Visitor Services were combined into the Other Enterprise Funds fund.

Nonmajor Permanent Funds – Jim Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, and Historical Society Acquisitions were combined into the Historical Society Trusts Fund.



### NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$1,895,710
Equity in pooled investments	\$6,876,467
Investments	\$1,745,742

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

#### A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external

investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 deposits are uncollateralized. The State's cash deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of risk assumed by the State at June 30, 2004.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments where the securities are held by the counter party's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities, in addition to other long-term investment securities, to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91-day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk



identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero-coupon bonds and preferred stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock), and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued and traded at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero-coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include

structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2004, the State's agent loaned, on behalf of the State, certain securities held by the agent and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2004, the State had no credit risk exposure to borrowers.

## B. Cash/Cash Equivalents

(1) **Cash Deposits** – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

**Table 1 - Cash Deposits (in thousands)**

Risk Category	Carrying Amount	Bank Balance	Fund
1 Insured (FDIC)	\$ 1,510	\$1,510	Various
Collateral held by State/State's agent	5,814	5,814	Various
2	4,115	4,115	Various
3	8,875	8,875	Various
<b>Uncategorized:</b>			
Undeposited cash	1,826		
Cash in U.S. Treasury	185,932		
Less: outstanding warrants	(52,449)		
Cash in MSU component units	6,443		
Cash in UM component units	3,294		
Total cash deposits	<u>\$165,359</u>		

As of June 30, 2004, the carrying amount of deposits for component units was \$81,383,853, and the bank balance was \$75,345,175. Of the carrying amount, \$75,345,175 was fully insured or collateralized with securities held by the component units or their agents in the unit's name, and \$6,488,678 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) **Cash Equivalents** – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

**Table 2 - Cash Equivalents (in thousands)**

	Risk Category 1			Carrying Amount	Fair Value	Fund
	Securities Not on Loan	On Loan for Securities Collateral	Not Categorized			
Asset-backed securities	\$940,831	\$-	\$-	\$ 940,831	\$ 940,844	Various
Government securities	182,257	-	-	182,257	181,052	Various
Repurchase agreements	71,848	-	-	71,848	71,848	Various
Variable-rate short term securities	504,982	-	-	504,982	504,931	Various
Direct investments:						
Money markets				30,433	30,433	Various
Total cash equivalents				<u>\$1,730,351</u>	<u>\$1,729,108</u>	
Securities lending collateral						
Investment pool			\$-	\$ -	\$ -	

As of June 30, 2004, local governments invested \$601,911,349 in STIP.

As of June 30, 2004, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$375,787,462.

### C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to statutory restrictions for quality and size of holdings.

**Table 3 - Equity In Pooled Investments (in thousands)**

	<b>Risk Category 1</b>				
	<b>Securities Not on Loan</b>	<b>On Loan for Securities Collateral*</b>	<b>Not Categorized*</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>MDEP:</b>					
Common Stock Pool	\$1,616,462	\$ -	\$ 18,799	\$1,635,261	\$1,941,940
Equity Index Fund	544,162	-	-	544,162	596,835
DFA Small Cap Subtrust	260,000	-	-	260,000	323,104
SPIFF	39,638	-	-	39,638	40,405
<b>TFBP:</b>					
Corporate Asset-backed	61,013	-	-	61,013	60,172
Corporate Stocks	504,213	-	13,195	517,408	546,933
US Govt. Mortgage-backed	150,318	-	-	150,318	147,756
US Govt. Direct	225,257	2,532	144,491	372,280	385,438
Yankee Bonds	68,920	-	3,991	72,911	77,757
State and Local Government	9,893	-	-	9,893	9,894
<b>RFBP:</b>					
Corporate Asset-backed	57,411	-	-	57,411	57,044
Corporate Stocks	686,127	-	25,909	712,036	752,472
US Govt. Mortgage-backed	193,434	-	-	193,434	189,125
US Govt. Direct	293,921	-	168,298	462,219	488,067
Yankee Bonds	59,146	-	4,369	63,515	69,524
<b>MTIP:</b>					
BGI MSCI Europe Index	375,434	-	-	375,434	389,188
BOI Internal International	40,005	-	-	40,005	46,168
BGI Cash & Money Market	1	-	-	1	1
SPIFF	31,374	-	-	31,374	31,685
Schroder Capital Management	118,527	-	13,211	131,738	150,237
Pyford International	100,538	-	19,179	119,717	133,028
Nomura	87,496	-	717	88,213	103,631
<b>MPEP:</b>					
Private Equities	212,763	-	-	212,763	234,249
State Street SPIFF	23,948	-	-	23,948	24,230
Total pooled investments	5,760,001	2,532	412,159	6,174,692	6,798,883
Other pool assets (net)	-	-	-	77,584	77,584
Total equity in pooled investments	<u>\$5,760,001</u>	<u>\$2,532</u>	<u>\$412,159</u>	<u>\$6,252,276</u>	<u>\$6,876,467</u>
Securities lending collateral Investment pool			<u>\$453,667</u>	<u>\$ 453,667</u>	<u>\$ 453,667</u>

\* At June 30, 2004, these underlying securities, with fair values of \$2,965,830 and \$441,171,420, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2004, component units of the State of Montana had equity in pooled investments with a book value of \$4,167,355,588 and a fair value of \$5,616,651,956.

## D. Investments

Long-term investments are primarily administered by three state agencies. Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 71.86% of those investments; the Board of Housing, 9.41%; and the Department of Administration's Public Employees Retirement Board, 16.19% for the State's Deferred Compensation Plan and Defined Contribution Retirement Plan. The Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Commissioner of Higher Education, combined, manage 1.39% of total investments for bond-related activities. Additionally, the Montana University System manages 1.03% of total investments.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

**Table 4 – Investments (Risk Categories) (in thousands)**

	Risk Category 1		Risk Category 2	Not Categorized*	Carrying Amount	Fair Value
	Securities Not on Loan	On Loan for Securities Collateral*				
<b>Primary government</b>						
Corporate bonds	\$ 1,137	\$ -	\$ -	\$ 31,745	\$ 32,882	\$ 33,937
Corporate asset-backed	12,217	-	-	-	12,217	12,062
Government securities	101,364	\$1,366	-	-	102,730	104,009
Government mortgage-backed	6,642	-	-	-	6,642	6,730
Total	\$121,360	\$1,366	\$ -	\$ 31,745	\$ 154,471	\$ 156,738
<b>Component units/fiduciary funds</b>						
Corporate bonds	\$255,712	\$ -	\$ -	\$ -	\$ 255,712	\$ 262,591
Corporate asset-backed	28,031	-	-	-	28,031	27,642
Government securities	95,179	-	-	185,935	281,114	285,227
Government mortgage-backed	51,047	-	-	-	51,047	51,798
Repurchase agreement	-	-	\$82,655	-	82,655	82,655
Other investments	-	-	-	15,387	15,387	15,312
Total	429,969	-	82,655	201,322	713,946	725,225
Total	\$551,329	\$1,366	\$82,655	\$233,067	\$ 868,417	\$ 881,963
<b><u>Direct investments:</u></b>						
<b>Primary government</b>						
Commercial loans					\$ 161,695	\$ 161,695
Other					999	1,007
MUS Workers Compensation					1,842	1,842
Total					\$ 164,536	\$ 164,544
<b>Component units/fiduciary funds</b>						
Real estate					\$ 16,093	\$ 16,242
Mortgages					123,619	123,621
Other					77,348	81,846
Deferred compensation					223,280	224,376
Defined contribution					18,087	20,480
VEBA					122	122
Investments of MSU component units					107,102	107,102
Investments of UM component units					125,446	125,446
Total					691,097	699,235
Total investments					\$1,724,050	\$1,745,742
<b>Securities lending collateral</b>						
Investment pool				\$226,700	\$ 226,700	\$ 226,700

\* At June 30, 2004, the underlying securities, with fair values of \$1,328,020 and \$220,907,631, respectively, were loaned for securities and cash collateral under a securities lending agreement with the State's agent.

**NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE**

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2004, follows (amounts in thousands):

**A. Receivables**

<b>Receivables</b>	<b>Governmental Funds</b>					
	<b>General Fund</b>	<b>State Special Revenue</b>	<b>Federal Special Revenue</b>	<b>Coal Severance Tax Permanent</b>	<b>Land Grant Permanent</b>	<b>Other Governmental</b>
Licenses and permits	\$ 8,126	\$ 330	\$ -	\$ -	\$ -	\$ -
Taxes	143,533	44,460	-	3,517	-	959
Charges for services/ fines/forfeitures	7,543	9,955	2,356	-	-	-
Investment income	1,696	5,850	-	4,339	5,977	3,932
Other	5,545	6,585	7,080	-	-	368
Total receivables	166,443	67,180	9,436	7,856	5,977	5,259
Less: allowance for doubtful accounts	(15,976)	(2,323)	-	-	-	-
Receivables, net	<u>\$150,467</u>	<u>\$64,857</u>	<u>\$ 9,436</u>	<u>\$7,856</u>	<u>\$5,977</u>	<u>\$5,259</u>

<b>Receivables</b>	<b>Proprietary Funds</b>			
	<b>Unemployment Insurance</b>	<b>Economic Development Bonds</b>	<b>Other Enterprise</b>	<b>Internal Service</b>
Charges for services	\$1,992	\$ -	\$14,395	\$ 165
Investment income	-	736	35	56
Contributions/premiums	4,441	-	2,398	2,823
Other	-	9,176	134	200
Total receivables	6,433	9,912	16,962	3,244
Less: allowance for doubtful accounts	(222)	-	(107)	-
Receivables, net	<u>\$6,211</u>	<u>\$9,912</u>	<u>\$16,855</u>	<u>\$3,244</u>

## B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Other Governmental
Refunds	\$ 80,388	\$ -	\$ -	\$-	\$ -	\$ -
Tax distributions to other govt	-	23,727	-	-	-	-
Vendors/individuals	31,442	45,586	106,564	-	-	2,757
Payroll	10,587	11,042	4,553	-	-	64
Accrued interest	-	-	-	-	5,842	-
Other	348	1,157	943	-	-	12
Total	\$122,765	\$81,512	\$112,060	\$-	\$5,842	\$2,833

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Other Enterprise	Internal Service
Vendors/individuals	\$54	\$ 1	\$5,709	\$6,764
Payroll	-	13	429	1,753
Accrued interest	-	613	-	6
Other	-	-	4	15
Total	\$54	\$627	\$6,142	\$8,538

## NOTE 5. CAPITAL ASSETS

### A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2004, are reflected in the following table; intrafund transfers of capital assets have not been eliminated (in thousands):

#### Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 300,246	\$ 22,755	\$ (7,280)	\$ 315,721
Construction work in progress	174,368	179,712	(175,011)	179,069
Capitalized collections	64,055	7,812	(1,846)	70,021
Total capital assets, not being depreciated	538,669	210,279	(184,137)	564,811
Capital assets, being depreciated				
Infrastructure	2,821,593	189,668	(63,542)	2,947,719
Land improvements	11,178	1,157	(388)	11,947
Buildings/improvements	323,582	26,267	(21,030)	328,819
Equipment	235,783	29,773	(19,648)	245,908
Other	3,323	1,224	(1,152)	3,395
Total capital assets, being depreciated	3,395,459	248,089	(105,760)	3,537,788
Less: accumulated depreciation for:				
Infrastructure	(1,447,182)	(1,374,944)	1,411,285	(1,410,841)
Land improvements	(1,170)	(824)	532	(1,462)
Buildings/improvements	(145,103)	(10,425)	5,879	(149,649)
Equipment	(140,655)	(22,173)	13,852	(148,976)
Other	(2,527)	(1,752)	1,299	(2,980)
Total accumulated depreciation	(1,736,637)	(1,410,118)	1,432,847	(1,713,908)
Total capital assets, being depreciated, net	1,658,822	(1,162,029)	1,327,087	1,823,880
Intangible assets	27,836	8,312	(15,711)	20,437
Governmental activity capital assets, net	\$2,225,327	\$ (943,438)	\$1,127,239	\$2,409,128

**Primary Government (continued)**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	71	246	(63)	254
Total capital assets, not being depreciated	871	246	(63)	1,054
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	1,381	6	-	1,387
Buildings/improvements	6,098	-	-	6,098
Equipment	9,881	846	(851)	9,876
Other	-	-	-	-
Total capital assets, being depreciated	18,244	852	(851)	18,245
Less: accumulated depreciation for:				
Infrastructure	(459)	(92)	63	(488)
Land improvements	(1,092)	(9)	-	(1,101)
Buildings/improvements	(3,336)	(275)	87	(3,524)
Equipment	(5,221)	(1,831)	850	(6,202)
Other	-	-	-	-
Total accumulated depreciation	(10,108)	(2,207)	1,000	(11,315)
Total capital assets, being depreciated, net	8,136	(1,355)	149	6,930
Intangible assets	1,188	39	(286)	941
Business-type activity capital assets, net	\$10,195	\$(1,070)	\$ (200)	\$ 8,925

Depreciation expense was charged to governmental functions as follows (in thousands):

	<b>Amount</b>
General government	\$ 1,562
Public safety/corrections	6,085
Transportation (including depreciation of the highway system maintained by the State)	97,490
Health/social services	3,088
Education/cultural	587
Resource/recreation/environment (including depreciation of the State's dams).	4,118
Economic development/assistance	866
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	10,438
Total depreciation expense – governmental activities	<b>\$124,234</b>

Depreciation expense was charged to business-type activities as follows (in thousands):

	<b>Amount</b>
Liquor Stores	\$ 102
State Lottery	900
Economic Development Bonds	2
General Government Services	77
Prison Funds	318
Total depreciation expense – business-type activities	<b>\$1,399</b>



## B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

### Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	\$ 4,240	\$ 7,001	\$ -	\$ 11,241
Construction work in progress	5,787	24,094	-	29,881
Capitalized collections	7,780	14,793	-	22,573
Livestock for educational purposes	2,758	-	-	2,758
Total capital assets, not being depreciated	20,565	45,888	-	66,453
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,129	9,368	-	22,497
Buildings/improvements	289,417	310,780	-	600,197
Equipment	86,526	47,273	3,226	137,025
Other	55,701	46,547	-	102,248
Total capital assets, being depreciated	476,901	413,968	3,226	894,095
Less: accumulated depreciation	(259,555)	(221,715)	(1,987)	(483,257)
Total capital assets, being depreciated, net	217,346	192,253	1,239	410,838
Intangible assets	1,406	809	1,186	3,401
Capital assets (net) of MSU component units	6,817	-	-	6,817
Capital assets (net) of UM component units	-	5,666	-	5,666
Discretely presented component units				
Total capital assets, net	\$246,134	\$244,616	\$2,425	\$493,175

## NOTE 6. RETIREMENT SYSTEMS

### Defined Contribution Plans

**ORP – Optional Retirement Program** – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under

the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.027% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered payroll	\$ 133,141
Total payroll	290,673
Employer contributions	\$ 6,535
Percent of covered payroll	4.91%
Employee contributions	\$ 9,355
Percent of covered payroll	7.03%

**PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan** – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to join the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

Participant rights are fully vested in their accounts at the time of deposit in regard to participant contributions and interest. Employer contributions and interest are vested after 5 years of service.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of \$1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

An inter-entity loan in the amount of \$114,000 was made to the PERS-DCRP from the defined benefit education fund on August 18, 2003, to help cover the costs of the DCRP expenses. The term of this loan is for two years, and the interest rate to be repaid to the defined benefit education fund is the same as STIP. The first repayment of \$28,500 plus interest was made in June 2004, in advance of the actual due date. The remaining principal balance of the inter-entity loan is \$85,500 and is due in August 2005.

For information on the repayment schedules on these loans, please see the separately issued PERS-DCRP financial statements.

## **Deferred Compensation Plan**

**457 – Deferred Compensation Plan** – The 457 plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2004, the net assets of the plan were \$224,748,963.

The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRS-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

## **Defined Benefit Plans**

### **A. General**

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS-DBRP), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education fund.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERB, SRS, MPORS, HPORS, FURS, GWPORS, JRS, 457, and TRS by employer type at June 30, 2004, follows:

	Retirement System/Plan									
	PERS-DBRP	PERS-DCRP	SRS	MPORS	HPORS	FURS	GWPORS	JRS	457	TRS
<b>Employers</b>										
State agencies	35	28	1		1	1	5	1	35	8
Counties	55	44	55							
Cities/towns	94	37		22		14				
Colleges/universities	5	5					3		6	5
School districts	242	88								372
Other	95	27							2	
<b>Total</b>	<b>526</b>	<b>229</b>	<b>56</b>	<b>22</b>	<b>1</b>	<b>15</b>	<b>8</b>	<b>1</b>	<b>43</b>	<b>385</b>

## B. Plan Descriptions

The State contributes to and/or administers ten plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing, multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing, multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1999 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS-DBRP, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a maximum benefit increase of 3% each January, inclusive of all other adjustments to the member's benefit, if the recipient has been receiving a retirement benefit for at least 12 months.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

### (1) State as the Single Employer

**HPORS – Highway Patrol Officers Retirement System** – This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code

Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997, and members electing GABA coverage. The employer contribution rate is 36.33% of active officer's salaries. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from a portion of the fees collected from drivers' license and duplicate drivers' license applications. For members, there is no minimum age, but minimum service is 20 years for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the highest average compensation. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which insure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit paid nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump-sum payment distributed in September. This lump-sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in September 2004 was \$2,310. This enhancement is limited to non-GABA members.

**JRS – Judges Retirement System** – This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district court, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries while the State contributes 25.81% of active judges' salaries. Rights are vested after five years of membership service. Benefit eligibility is age 60 with at least 5 years of service, or any age with 5 years of service actuarially reduced with

involuntary terminations. The monthly retirement benefit formula is 3 1/3% per year of the member's highest average compensation for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15 years. For non-GABA members, the percentages are based on the member's current salary, instead of the highest average compensation.

## **(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Systems**

**PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan** – This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions are 6.9% of covered compensation. Each state agency and university system employer contributed 6.9% of PERS-covered payroll. Participating local governments and school district employers contributed 6.8% of PERS-covered payroll. The State contributed 0.1% for local governments and school district employers from the State General Fund. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service, regardless of age. Actuarially reduced benefits may be taken with 25 years of service, or at age 50 with at least five years of service. Monthly retirement benefits vary based on years of service: the benefit is determined by taking 1.785% (for employees with less than 25 years of service), or 2% (for employees with at least 25 years of service) times the number of years of service times the highest average compensation times any early retirement reduction, if necessary. Members' rights are vested after five years of membership service.

**Actuarial Status:** The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 1.19% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

**TRS – Teachers Retirement System** – This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of

the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Benefit eligibility is age 60 with at least 5 years of creditable service, or at any age with at least 25 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2033, for the amount that would not be paid for by contributions of university system members. The fiscal year 2004 contribution percentage of the total compensation of employees participating in the ORP program was 4.04% and the contribution was \$4.7 million.

**Actuarial Status:** The Montana Constitution, Article VIII, Section 15, requires public retirement systems be funded on actuarially sound basis. The system's actuary has determined that as of July 1, 2004, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost of the system and to amortize the unfunded actuarial liability over an open period of 30 years. The unfunded actuarial accrued liability of \$873.5 million is included in the Schedules of Funding Progress. Based on the results of the July 1, 2004 valuation, the TRS Board will recommend options to the Legislature that are considered necessary to remain actuarially sound.

In addition, because actuarial gains and losses are smoothed over five years, only one-fifth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2004, leaving almost \$131 million in unrecognized investment losses, which must be recognized over the next three to four years. Therefore, to remain actuarially sound for future years, the retirement system will need to incur future gains that would result from a significant recovery in the investment market, a reduction in liabilities, additional increases in contribution rates, or any combination thereof.

**SRS – Sheriffs Retirement System** – This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs. The member contribution is 9.245% of salary; the employer contribution is 9.535% of SRS-covered payroll. Benefit eligibility is age 50 with at least 5 years of service, actuarially reduced, or 20 years of service regardless of age. The service retirement

benefit is calculated at 2.5% of the highest average compensation for each year of membership service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of membership service.

**Actuarial Status:** The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 2.15% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

**GWPORS – Game Wardens & Peace Officers Retirement System** – This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 10.56% of salary while the State contributes 9.0% of covered active employee salaries. Benefit eligibility is age 50 with at least 20 years of service, or age 55 with at least 5 years of service. The yearly retirement benefit formula is 2.5% times the number of years of service times the highest average compensation. Rights are vested after five years of membership service.

**Actuarial Status:** The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 0.23% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

### **(3) State as a Nonemployer Contributor to Cost-Sharing, Multiple-Employer Systems**

**MPORS – Municipal Police Officers Retirement System** – The system, established in 1974 and governed

by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation. The member contribution is 5.8% of salary for members employed prior to July 1, 1975; 7% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 8.5% of salary for members employed after June 30, 1979, and prior to July 1, 1997; and 9% for members hired on or after July 1, 1997, and members electing GABA. Employer contributions are 14.41% of MPORS-covered payroll. The State contributes 29.37% of compensation paid to members. The State's contribution is funded from the General Fund. Rights are vested after five years of membership service. Benefit eligibility is age 50 with at least 20 years of service, or age 55 with at least 5 years of service. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

Beginning July 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends they will again accrue membership service and service credit and the DROP account cannot be distributed until employment is formally terminated.

**FURS – Firefighters Unified Retirement System** – This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a cost-sharing defined benefit plan with a special funding situation.

The member contribution is 9.5% of compensation for members hired prior to July 1, 1997; and 10.7% for members hired after June 30, 1997, and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The state contribution is 32.61% of total annual compensation for all firefighters and is paid out of the General Fund. Benefit eligibility is 20 years regardless of age, or age 50 with at least 5 years of service. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation, plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% of final average compensation. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed firefighter in the city where last employed. Rights are vested after five years of membership service.

#### **(4) State as a Nonemployer Contributor**

**VFCA – Volunteer Firefighters Compensation Act** – This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation. The state contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Benefit eligibility is age 55 with at least 20 years of service (full benefit available), or age 60 with at least 10 years of service (partial benefit available).

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective 7/1/2003).

#### **C. Summary of Significant Accounting Policies**

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

#### **D. Method Used to Value Investments**

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

#### **E. Long-term Contracts for Contributions**

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (Section 19-2-706, MCA) allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2004, 311 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2003 totaled \$423,969. June 30, 2004, outstanding balances were \$215,459.

#### **F. Actuarial Data**

Actuarial valuations are performed every two years. Milliman prepared the July 2004 actuarial reports for PERS and TRS. Mellon was the auditing actuary for all retirement system actuarial reports prepared by Milliman & Robertson. Milliman & Robertson prepared the July 2002 actuarial reports for the retirement systems, including TRS. Milliman & Robertson of Seattle, WA, performed the actuarial valuation for TRS for July 1, 2000. Milliman & Robertson, of Portland, OR, prepared the July 1, 2000 actuarial reports for the retirement systems, excluding TRS. Further disclosure can be found in Note 18.

## G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

### Single Employer Systems

	HPORS	JRS
Annual pension cost	\$3,198	\$1,136
Contributions		
Employer	\$2,859	\$1,136
Employee	743	443
License and registration fees	348	
Actuarial valuation date	7/01/04	7/01/04
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	19.1 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

### Single Employer Systems

Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Obligation
<b>HPORS</b>			
06/30/02	3,047	101.3%	NONE
06/30/03	3,191	100.9%	NONE
06/30/04	3,198	100.3%	NONE
<b>JRS</b>			
06/30/02	1,032	100.0%	NONE
06/30/03	1,052	100.0%	NONE
06/30/04	1,137	100.0%	NONE

### Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
<b>PERS</b>		
06/30/02	55,369	100.5%
06/30/03	58,114	99.1%
06/30/04	57,036	101.0%
<b>MPORS</b>		
06/30/02	9,732	101.1%
06/30/03	10,196	101.0%
06/30/04	10,740	101.4%
<b>FURS</b>		
06/30/02	8,432	98.1%
06/30/03	8,740	100.8%
06/30/04	9,409	100.0%
<b>SRS</b>		
06/30/02	2,338	102.1%
06/30/03	2,435	101.7%
06/30/04	2,610	103.6%
<b>GWPORS</b>		
06/30/02	1,544	103.3%
06/30/03	1,803	101.8%
06/30/04	1,930	104.7%
<b>TRS</b>		
06/30/02	51,519	100.0%
06/30/03	53,277	100.0%
06/30/04	55,774	100.0%



## H. Schedules of Funding Progress

### Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>HPORS</b>						
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
07/01/02	81,734	94,850	13,116	86.17%	7,536	174.04%
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
<b>JRS</b>						
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%
07/01/02	44,963	30,882	(14,081)	145.60%	4,000	(352.03)%
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%

### Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>PERS</b>						
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
07/01/02	3,076,781	3,077,764	983	99.97%	808,747	0.12%
07/01/04	3,047,287	3,514,085	466,798	86.72%	832,847	56.05%
<b>MPORS</b>						
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
07/01/02	143,516	226,827	83,311	63.27%	22,229	374.79%
07/01/04	149,510	260,094	110,584	57.48%	24,531	450.79%
<b>FURS</b>						
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
07/01/02	136,392	197,946	61,554	68.90%	17,953	342.86%
07/01/04	142,109	227,599	85,490	62.44%	20,248	422.21%
<b>SRS</b>						
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
07/01/02	138,590	121,625	(16,965)	113.95%	24,521	(69.19)%
07/01/04	141,022	148,608	7,586	94.90%	27,373	27.71%
<b>GWPORS</b>						
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
07/01/02	38,730	39,109	379	99.03%	17,151	2.21%
07/01/04	45,210	50,310	5,100	89.86%	21,442	23.79%
<b>TRS</b>						
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%
07/01/02	2,484,800	2,980,100	495,300	83.4%	563,200	87.9%
07/01/04	2,485,700	3,359,200	873,500	74.0%	600,700	145.4%

### Nonemployer Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>VFCA</b>						
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A
07/01/02	19,254	26,808	7,554	71.82%	N/A	N/A
07/01/04	20,058	28,680	8,622	69.94%	N/A	N/A

### NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2004, 70 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established retiree medical premiums vary between \$189 and \$560 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$28.60 and \$46.60, and vision premiums vary between \$7.85 and \$20.40 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2004, 3,259 retirees were covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. Vision services are

provided at prices ranging from a \$10 copay to a \$120 allowance depending on the services obtained and the network status of the provider. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$17,467,897 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$13,816,553 leaving \$3,651,344 of claims paid in excess of premium revenue received by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$216 and \$566 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$575 deductible for non-Medicare-eligible retirees, the MUS plan reimburses 65% to 80% of the first \$10,000 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 65% to 80% for the first \$5,000 in medical claims and 100% thereafter. There is an optional \$1500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (54 enrollees). After the \$1500 annual deductible, the plan pays 65 to 80% of the first \$8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2004, 1,392 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2004, estimated expenditures of \$5,651,448 were recognized for postemployment health care benefits. Of this amount, \$5,566,107 was paid by retirees through premiums, and the balance of \$85,341 was paid by the MUS.

## NOTE 8. RISK MANAGEMENT

There are four primary government public entity risk pools that are reported within the enterprise fund type and two component unit public entity risk pools. Primary government pools include Hail Insurance, Subsequent Injury, the Montana University System (MUS) Group Benefits Plan, and the Montana University System Workers Compensation funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

### A. Public Entity Risk Pools

**(1) Hail Insurance** – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,026 policies during the 2004 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$94,570 based on estimated claims through June 30, 2004. Any crop

insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

**(2) Subsequent Injury** – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,389 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2004, the amount of this liability was estimated to be \$2,363,565.

**(3) Montana University System (MUS) Group Benefits Plan** – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Blue Cross/Blue Shield of Montana is the claims administrator for the self-insured indemnity plan and an HMO plan. New West Health Services and Peak administers claims for the two other self-insured plans. Managed Care Montana (APS) has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Mellon Consultants and estimated to be \$4,662,553 as of June 30, 2004, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

**(4) Montana University System (MUS) Workers Compensation Program** – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During 2004, the program ceded \$151,286 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$1,622,251 for estimated claims in 2004. Of that amount, \$845,429 was for claims incurred but not reported. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

**(5) State Compensation Insurance (New Fund)** – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2004, approximately 26,963 employers were insured with the New Fund. Anticipated investment

income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2004, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2004, \$452,115,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2004, was \$1,062,259. For the fiscal year ended June 30, 2004, \$1,474,338 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

**(6) State Compensation Insurance (Old Fund)** – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2004, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2004, \$108,500,000 of unpaid claims and claim adjustment expenses were reported at a net present value of \$80,778,000, discounted at a 5.25% rate.

**(7) Changes in Claims Liabilities For the Past Two Years** – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	<u>Primary Government</u>				<u>MUS Group Benefits</u>	
	<u>Hail Insurance</u>		<u>Subsequent Injury</u>			
	2004	2003	2004	2003	2004	2003
Unpaid claims and claim adjustment expenses at beginning of year	\$ 298	\$ 43	\$2,364	\$2,100	\$ 3,444	\$ 2,982
Incurring claims and claim adjustment expenses:						
provision for insured events of the current year	1,164	1,696	-	-	35,451	33,675
Increase (decrease) in provision for insured events of prior years	(184)	(6)	205	797	1,219	461
Total incurred claims and claim adjustment expenses	980	1,690	205	797	36,670	34,136
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(885)	(1,392)	(29)	(35)	(35,451)	(33,674)
Claims and claim adjustment expenses attributable to insured events of prior years	(298)	(43)	(177)	(498)	-	-
Total payment	(1,183)	(1,435)	(206)	(533)	(35,451)	(33,674)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 95	\$ 298	\$2,363	\$2,364	\$ 4,663	\$ 3,444

	<u>Primary Government</u> <u>MUS Workers</u> <u>Compensation</u> <u>Program</u> <u>2004</u>	<u>State Compensation</u> <u>Insurance</u> <u>(New Fund)</u> <u>2004</u>	<u>Component Units</u> <u>2003</u>	<u>State Compensation</u> <u>Insurance</u> <u>(Old Fund)</u> <u>2004</u>	<u>2003</u>
Unpaid claims and claim adjustments expenses at beginning of year	\$ -	\$413,400	\$346,400	\$113,181	\$128,902
Incurred claims and claim adjustment expenses:					
Provision for insured events of the current year	2,174	136,059	116,598	-	-
Increase (decrease) in provision for insured events of prior years	-	13,568	35,366	8,215	(1,448)
Total incurred claims and claim adjustment expenses	2,174	149,627	151,964	8,215	(1,448)
Payments:					
Claims and claim adjustment expenses attributable to insured events of the current year	(552)	(34,575)	(22,982)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	-	(76,337)	(61,982)	(12,896)	(14,273)
Total payments	(552)	(110,912)	(84,964)	(12,896)	(14,273)
Total unpaid claims and claim adjust. exp. at end of the year	\$1,622	\$452,115	\$413,400	\$108,500	\$113,181

**(8) Risk Management Trend Information** – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as

of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

	<b>MUS Workers Compensation Program 2004</b>
<b>1. Premiums and investment revenue</b>	
Earned	\$2,456
Ceded	151
Net earned	<u>\$2,305</u>
<b>2. Unallocated expenses including overhead</b>	\$8,637
<b>3. Estimated losses and expenses end of accident year</b>	
Incurred	\$2,174
Ceded	-
Net incurred	<u>\$2,174</u>
<b>4. Net paid (cumulative) as of:</b>	
End of policy year	\$ 552
<b>5. Re-estimated ceded losses and expenses</b>	\$ -
<b>6. Re-estimated net incurred losses and expense:</b>	
End of policy year	\$2,174
<b>7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year</b>	\$ -

*(State Compensation Insurance (New Fund) Table presented on next page)*

	State Compensation Insurance (New Fund)									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Premiums and investment revenue										
Earned	\$193,096	\$136,939	\$104,260	\$89,522	\$81,215	\$89,885	\$114,225	\$127,292	\$161,713	\$121,494
Ceded	269	519	348	303	260	855	2,952	(465)	5,654	6,563
Net earned	\$192,827	\$136,420	\$103,912	\$89,219	\$80,955	\$89,030	\$111,273	\$127,757	\$156,059	\$114,931
2. Unallocated expenses including overhead	\$ 14,463	\$ 17,554	\$ 12,736	\$14,525	\$19,136	\$22,306	\$ 27,035	\$ 29,844	\$ 33,842	\$ 42,088
3. Estimated losses and expenses end of accident year										
Incurred	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705
4. Net paid (cumulative) as of:										
End of policy year	\$ 18,137	\$ 15,818	\$ 12,589	\$12,943	\$13,723	\$13,177	\$ 14,140	\$ 16,693	\$ 22,982	\$ 26,123
One year later	40,473	32,890	28,451	28,222	29,976	29,218	32,888	38,185	48,861	
Two years later	52,073	42,361	35,706	35,753	39,298	37,555	45,218	52,359		
Three years later	58,722	47,283	39,860	41,004	45,748	43,649	55,248			
Four years later	62,419	50,267	43,105	44,478	49,984	48,322				
Five years later	65,919	52,791	46,478	47,584	54,212					
Six years later	68,541	54,962	48,505	50,188						
Seven years later	70,816	57,654	50,402							
Eight years later	72,803	59,193								
Nine years later	74,989									
5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ 6,477	\$ 582	\$ 2,311	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705
One year later	124,123	88,923	67,235	64,308	64,348	66,421	71,094	86,799	110,532	
Two years later	107,074	77,286	59,054	60,467	66,660	66,662	81,053	91,241		
Three years later	95,456	73,864	60,811	61,989	69,345	70,302	88,157			
Four years later	94,517	74,022	64,439	64,944	72,435	72,492				
Five years later	92,231	73,197	59,079	67,312	73,710					
Six years later	91,771	74,329	60,528	67,772						
Seven years later	92,637	76,955	60,630							
Eight years later	93,637	76,849								
Nine years later	94,036									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (70,592)	\$(18,218)	\$(15,437)	\$ 2,789	\$ 9,065	\$ 6,535	\$ 19,890	\$ 9,681	\$ 379	\$ -

## B. Entities Other Than Pools

**(1) Group Employee Comprehensive Medical and Dental Plan** – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2004, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were \$11,195,548 based on a formula provided by Mellon Consultants, a consulting actuarial firm, of which \$5,864,318 is estimated to be paid in fiscal year 2005.

**(2) Property & Casualty Insurance Plans** – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the \$250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.6 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1994 through June 30, 2004, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2004, estimated claims liability of \$25,557,823 is reported in the accompanying financial statements.

**(3) Changes in Claims Liabilities For the Past Two Years** – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	<b>Group Employees Medical &amp; Dental</b>		<b>Prop. &amp; Casualty Insurance</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Amount of claims liabilities at the beginning of each fiscal year	\$ 11,487	\$ 9,164	\$30,927	\$29,848
Incurred claims:				
Provision for insured events of the current year	70,164	72,085	7,723	7,544
Increases (decreases) in provision for insured events of prior years	(290)	2,323	(8,651)	(602)
Total incurred claims	69,874	74,408	(928)	6,942
Payments:				
Claims attributable to insured events of the current year	(64,699)	(66,300)	(816)	(742)
Claims attributable to insured events of prior years	(5,467)	(5,785)	(3,625)	(5,121)
Total payments	(70,166)	(72,085)	(4,441)	(5,863)
Total claims liability at end of each fiscal year	\$ 11,195	\$ 11,487	\$25,558	\$30,927



## NOTE 9. COMMITMENTS

### A. Highway Construction

At June 30, 2004, the Department of Transportation had contractual commitments of approximately \$141.8 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

### B. Capital Construction

At June 30, 2004, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$10.3 million for capital projects construction. The primary government will fund \$6.9 million of these projects, with the remaining \$3.4 million coming from the state university system.

### C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2004, the BOI had committed but not yet purchased \$69,281,764 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$12,021,150 for loans as of June 30, 2004.

The BOI makes firm commitments to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2004, the BOI had committed but not yet purchased from Montana lenders, mortgages totaling \$124,550. Lenders had reserved no funding for mortgages as of June 30, 2004.

### D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

Primary Government	Amount
<b>Enterprise funds</b>	
HUD Section 8 Housing	\$ 25
Liquor Warehouse	12
Historical Society Publications	4
Subtotal-enterprise funds	<u>\$ 41</u>
<b>Internal service funds</b>	
DEQ Indirect Cost Pool	\$335
Admin Supply	205
Building and Grounds	194
Info Tech Services Division	87
FWP Equipment	59
Payroll Processing	2
Subtotal-internal service funds	<u>\$882</u>
Total-primary government	<u>\$923</u>

# **NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE**

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

## **A. Capital Leases/Installment Purchases**

Obligations under capital leases/installment purchases at June 30, 2004, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units		
	Governmental Activities	Montana State University	University of Montana	Total
2005	\$ 861	\$33	\$ 437	\$ 470
2006	768	25	241	266
2007	522	11	205	216
2008	180	-	38	38
2009	33	-	20	20
2010-2014	256	-	-	-
Total minimum pmts	2,620	69	941	1,010
Less: interest	(288)	(8)	(113)	(121)
Present value of minimum payments	<u>\$2,332</u>	<u>\$61</u>	<u>\$ 828</u>	<u>\$ 889</u>

## **B. Operating Leases**

Primary government rental payments for operating leases in fiscal year 2004 totaled \$12,358,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2005	\$12,241	\$1,459
2006	10,296	1,000
2007	9,189	723
2008	8,045	642
2009	7,523	510
2010-2014	24,748	2,180
2015-2019	9,520	1,726
2020-2024	1,119	-
Total future rental payments	<u>\$82,681</u>	<u>\$8,240</u>

## NOTE 11. STATE DEBT

### A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

### B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The State issued a tax and revenue anticipation note (TRAN) during fiscal year 2004. The proceeds of the tax anticipation note were used to meet anticipated cash flow deficits during the fiscal year. The TRAN was fully repaid by the end of the fiscal year. The following schedule summarizes the above activity for the year ended June 30, 2004 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
TRAN	\$-	\$73,400	\$73,400	\$-

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$120 million as amended by the 2003 Legislature. Previously, INTERCAP bonds could not aggregate more than \$80 million through June 30, 2011 and then \$75 million thereafter. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2004, were as follows (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Balance June 30, 2004</u>
1992	\$6,500	\$ 6,055
1994	7,500	6,895
1995	7,500	7,080
1997	10,000	9,740
1998	12,500	12,285
2000	15,000	15,000
2003	15,000	15,000
2004	18,500	18,500
Total		<u>\$90,555</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2004 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Demand bonds	\$72,190	\$18,500	\$135	\$90,555

### C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2004, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (11)	Principal Payments		Balance June 30, 2004
				FY 2005	In Year of Maturity (7)	
General obligation bonds						
Wastewater Treatment Works						
Revolving Fund	1994B	2,200	4.2-6.1	95	180 (2016)	1,590
Long-Range Bldg Program	1994C	21,955	5.125-7.0	1,000	1,000 (2005)	1,000
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	200	200 (2005)	200
Energy Conservation Program (2)	1996A	1,650	3.5-4.4	185	195 (2006)	380
Wastewater Treatment Works						
Revolving Fund	1996C	2,765	3.75-5.75	135	120 (2017)	2,040
Renewable Resource Program (1)	1997A	2,000	6.8-8.0	120	210 (2013)	1,435
Long-Range Bldg Program	1997B	12,640	4.5-5.0	830	595 (2018)	8,345
Wastewater Treatment Works						
Revolving Fund	1998A	3,510	3.75-5.15	140	260 (2019)	2,885
Long-Range Bldg Program (16)	1998B	34,545	4.2-5.1	1,430	2,555 (2018)	26,980
Information Technology	1998C	41,390	4.5-5.0	3,600	4,075 (2008)	15,330
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	105	1,720 (2015)	14,165
Energy Conservation Program (2)	1998E	1,250	3.6-4.6	130	150 (2008)	555
Renewable Resource Program (1)	1999	1,035	6.0-6.5	55	105 (2015)	845
Long-Range Bldg Program	1999C	16,990	4.0-5.0	665	1,250 (2019)	13,785
Drinking Water Revolving Fund (9)	1998F	3,065	3.6-4.85	130	230 (2019)	2,595
Drinking Water Revolving Fund (9)	2000A	2,990	4.25-5.6	100	240 (2021)	2,705
Water Pollution Control Revolving Fund (10)	2000B	3,325	4.25-5.6	115	270 (2021)	3,020
Long-Range Bldg Program	2000C	17,195	5.0-5.55	580	1,320 (2020)	14,385
Information Technology	2000D	18,000	5.0-5.25	1,735	1,830 (2006)	3,565
Long-Range Bldg Program	2001B	11,430	4.1-5.75	400	830 (2021)	9,875
Information Technology	2001C	1,600	3.85-4.2	145	185 (2011)	1,145
Energy Conservation Program (2)	2001D	1,250	3.85-4.2	115	145 (2011)	890
Renewable Resource Program (1)	2001E	1,040	5.2-6.8	50	105 (2017)	950
Drinking Water Revolving Fund (9)	2001G	3,190	4.0-5.0	115	235 (2022)	2,985
Water Pollution Control Revolving Fund (10)	2001H	2,690	4.0-5.0	100	200 (2022)	2,515
Long-Range Bldg Program	2002B	10,475	3.35-4.7	405	730 (2023)	10,110
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	80	200 (2023)	2,435
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,250	1,685 (2014)	14,455
Long-Range Bldg Program	2003A	9,730	2.375-4	320	655 (2024)	9,730
Energy Conservation Program (2)	2003B	1,250	2.0-3.0	105	145 (2014)	1,250
Renewable Resource Program Refunding (1)	2003C	1,970	1.45-5.25	440	90 (2019)	1,970
Water Pollution Control Revolving Fund (10)	2003D	2,730	2.0-3.75	145	225 (2019)	2,730
Drinking Water Revolving Fund (9)	2003E	1,675	2.0-3.75	90	140 (2019)	1,675
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	1,970	2,310 (2017)	26,610
Information Technology Refunding	2003H	8,725	2.0-40	165	2,225 (2010)	8,725
Water Pollution Control Revolving Fund (10)	2004A	2,665	2.0-3.8	-	230 (2020)	2,665
Long-Range Bldg Program	2004B	3,125	3.0-4.75	-	170 (2025)	3,125
Total general obligation bonds		\$311,420		\$17,245		\$219,645
Special revenue bonds						
Water Conservation (3)		\$ 50	5.0	\$ 2	\$ 1 (2012)	\$ 18
Renewable Resource Program Refunding (4)	1996A	14,985	3.7-5.2	1,145	110 (2017)	7,060
State Hospital Project (6)	1997	25,915	4.0-5.05	805	1,820 (2022)	22,360
Renewable Resource Program (4)	1997A	1,205	6.0-7.3	45	110 (2018)	995

Governmental Activities	Series	Amount Issued	Interest Range (%) (11)	Principal Payments		Balance June 30, 2004
				FY 2005	In Year of Maturity (7)	
Renewable Resource Program (4)	1997B	2,660	3.75-5.375	105	210 (2018)	2,125
Renewable Resource Program (4)	2001A	420	3.65-5.59	15	30 (2021)	375
Renewable Resource Program (4)	2001B	1,750	5.2-7.1	55	150 (2021)	1,605
Renewable Resource Program Refunding (4)	2001C	12,155	2.55-4.3	1,750	790 (2013)	6,700
Broadwater Power Proj Refunding (4)	2001D	21,450	2.25-4.7	1,100	1,795 (2018)	19,480
Renewable Resource Program (4)	2001E	885	2.1-4.85	35	65 (2022)	825
Renewable Resource Program (4)	2001F	900	3.3-6.2	30	75 (2022)	850
Renewable Resource Program (4)	2003A	3,000	1.05-4.05	110	215 (2024)	3,000
Developmental Center Project Refunding (6)	2003	11,510	3.0-5.0	550	970 (2019)	10,975
Total special revenue bonds		<u>\$ 96,885</u>		<u>\$ 5,747</u>		<u>\$ 76,368</u>
<b>Notes payable (17)</b>						
Middle Creek Dam Project (5)		\$ 3,272	8.125	\$ 46	207 (2034)	\$ 2,885
Tongue River Dam Project (8)		11,300	-	290	290 (2038)	9,851
Dept of Corrections Resident Accounting System Loan (10)		320	5.73	71	71 (2005)	71
Total notes payable		<u>\$ 14,892</u>		<u>\$ 407</u>		<u>\$ 12,807</u>
Subtotal governmental activities, before deferred balances						308,820
Deferred amount on refunding						(5,438)
Unamortized discount						(161)
Unamortized premium						1,880
Total governmental activities		<u>\$423,197</u>		<u>\$23,399</u>		<u>\$305,101</u>

#### **Business-type Activities**

##### **Bonds/notes payable**

##### **Economic Development Bonds (12)**

Municipal Finance Consolidation Act Bonds (Irrigation Program) (13)	1998	\$ 4,976	6.60-7.75	\$ 325	130 (2014)	\$ 1,204
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (14)	1991	6,234	4.75-6.5	294	294 (2005)	294
Conservation Reserve Enhancement Program (CRP Bonds) (15)		4,789	6-8	1,053	377 (2009)	4,789
Subtotal economic dev bonds		<u>15,999</u>		<u>1,672</u>		<u>6,287</u>
MUS Workers Compensation Bond Payable		2,050	2.8	395	430 (2008)	1,655
Total business-type activities		<u>\$ 18,049</u>		<u>\$ 2,067</u>		<u>\$ 7,942</u>

- (1) All Water Development Program Bonds and the Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$230,812 of interest owed.
- (6) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (7) Year of maturity refers to fiscal year.
- (8) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (9) Provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
- (10) Norwest loan to provide funds for the development of a Y2K-compliant resident accounting system.
- (11) The interest range is over the life of the obligation.

- (12) Economic Development Bonds (EDB) & Municipal Finance Consolidation Act Bonds (MFCAB) – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (13) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (14) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana school districts. The School District Refunding Bonds, and the interest thereon, are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or interest on the bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.
- (16) The interest range on general obligation bond 1998B has been corrected. It was previously misstated at 3.5-4.85.
- (17) At the beginning of fiscal 2004, the INTERCAP loan balances were reclassified to advances from other funds.

## D. Debt Service Requirements

Primary government debt service requirements at June 30, 2004, were as follows (in thousands):

### Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 17,245	\$ 8,991	\$ 5,747	\$ 3,337	\$ 407	\$ 50
2006	18,025	8,324	5,502	3,128	337	45
2007	18,250	7,595	4,347	2,937	339	44
2008	18,695	6,862	4,152	2,765	341	44
2009	14,410	6,195	4,933	2,568	342	43
2010-2014	68,675	22,363	22,931	9,746	1,743	202
2015-2019	51,560	8,406	21,820	4,545	1,859	175
2020-2024	12,615	1,045	6,936	688	1,951	138
2025-2029	170	4	-	-	2,070	93
2030-2034	-	-	-	-	2,259	36
2035-2039	-	-	-	-	1,159	-
Total	\$219,645	\$69,785	\$76,368	\$29,714	\$12,807	\$870

### Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2005	\$1,672	\$ 436	\$ 395	\$46
2006	1,204	337	410	35
2007	1,161	249	420	24
2008	1,228	164	430	12
2009	463	74	-	-
2010-2014	559	114	-	-
Total	\$6,287	\$1,374	\$1,655	\$117

Debt service requirements of discretely presented component units at June 30, 2004, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 7,782	\$ 32,604	\$ 4,937	\$ 3,158	\$ 3,650	\$ 7,002
2006	10,066	32,261	4,988	2,928	4,681	6,753
2007	10,704	31,848	4,022	2,712	4,872	6,588
2008	11,255	31,390	2,943	3,788	5,057	6,416
2009	12,230	30,877	2,736	3,982	5,078	6,237
2010-2014	70,900	144,835	17,024	16,395	25,828	28,146
2015-2019	92,198	126,999	24,760	8,798	32,291	21,530
2020-2024	117,775	97,388	20,215	2,516	42,155	11,659
2025-2029	146,340	61,542	2,085	119	13,730	2,346
2030-2034	116,760	23,043	-	-	4,565	508
2035-2039	23,305	4,948	-	-	-	-
2040-2044	9,730	917	-	-	-	-
Total	\$629,045	\$618,652	\$83,710	\$44,396	\$141,907	\$97,185

## E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
<b>Governmental activities</b>						
Bonds/notes payable						
General obligation bonds	\$227,625	\$ 14,515	\$ 22,495	\$219,645	\$17,245	\$202,400
Special revenue bonds	85,070	11,510	20,212	76,368	5,747	70,621
Notes payable (2)	13,210	-	403	12,807	407	12,400
	325,905	26,025	43,110	308,820	23,399	285,421
Deferred amount on refunding	(4,594)	(1,491)	(647)	(5,438)	-	(5,438)
Unamortized discount	(182)	-	(21)	(161)	-	(161)
Unamortized premium	1,590	477	187	1,880	-	1,880
Total bonds/notes payable	322,719	25,011	42,629	305,101	23,399	281,702
Other liabilities						
Lease/installment purchase payable (3)	3,277	2,382	3,327	2,332	740	1,592
Compensated absences payable (1)	71,133	48,407	44,535	75,005	44,528	30,477
Early retirement benefits payable (1)	316	54	155	215	38	177
Arbitrage rebate tax payable (1)	147	22	92	77	46	31
Estimated insurance claims (1)	42,413	77,887	83,547	36,753	14,063	22,690
Total other liabilities	117,286	128,752	131,656	114,382	59,415	54,967
Total governmental activities						
Long-term liabilities	\$440,005	\$153,763	\$174,285	\$419,483	\$82,814	\$336,669
<b>Business-type activities</b>						
Bonds/notes payable						
Economic Development Bonds	\$ 9,266	\$ 100	\$ 3,079	\$ 6,287	\$ 1,672	\$ 4,615
State Lottery	1,110	-	1,110	-	-	-
MUS Workers Compensation	-	2,050	395	1,655	395	1,260
Total bonds/notes payable	10,376	2,150	4,584	7,942	2,067	5,875
Other liabilities						
Compensated absences payable	1,097	797	666	1,228	665	563
Arbitrage rebate tax payable	170	56	86	140	84	56
Estimated insurance claims	6,105	40,214	37,576	8,743	5,341	3,402
Total other liabilities	7,372	41,067	38,328	10,111	6,090	4,021
Total business-type activities						
Long-term liabilities	\$ 17,748	\$ 43,217	\$ 42,912	\$ 18,053	\$ 8,157	\$ 9,896

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.
- (2) Governmental activities notes payable beginning balance has been reduced by \$8,089,000 to reflect that INTERCAP loans payable have been reclassified to advances from other funds.
- (3) Governmental activities lease/installment purchase payable beginning balance has been reduced by \$9,000 to reflect a reclassification to advances from other funds.



Long-term liability activity of discretely presented component units for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
<b>Discretely presented component units</b>						
Bonds/notes payable						
Housing Authority	\$ 624,089	\$164,879	\$158,013	\$ 630,955	\$ 7,782	\$ 623,173
Montana State University (MSU) (1)	90,304	19,326	22,376	87,254	4,937	82,317
University of Montana (UM) (1)	132,050	40,946	33,000	139,996	3,650	136,346
Total bonds/notes payable	846,443	225,151	213,389	858,205	16,369	841,836
Other liabilities						
Lease/installment purch pay	1,873	113	1,097	889	404	485
Compensated absences pay	41,856	19,812	18,894	42,774	18,996	23,778
Arbitrage rebate tax payable	1,137	322	435	1,024	47	977
Estimated insurance claims	494,300	162,401	123,808	532,893	114,140	418,753
Due to federal government	29,157	1,092	7	30,242	-	30,242
Total other liabilities	568,323	183,740	144,241	607,822	133,587	474,235
	<u>\$1,414,766</u>	<u>\$408,891</u>	<u>\$357,630</u>	<u>\$1,466,027</u>	<u>\$149,956</u>	<u>\$1,316,071</u>
Long-term liabilities of MSU component units					299	1,713
Long-term liabilities of UM component units					483	521
Total discretely presented component units					<u>\$150,738</u>	<u>\$1,318,305</u>
Long-term liabilities						

(1) MSU and UM notes payable beginning balances have been reduced by \$3,012,000 and \$1,427,000, respectively, to reflect that INTERCAP loans payable have been reclassified to advances from primary government.

## F. Refunded and Early Retired Debt

### Primary Government

#### Pre-payments

During fiscal year 2004, the Department of Natural Resources and Conservation used current available resources to make the following pre-payments on special revenue bonds: \$445,000 of Series 2001C Renewable Resource Program Refunding.

#### Advance Refundings

On September 1, 2003, the Department of Public Health and Human Services (DPHHS) issued \$11,510,000 of Series 2003 Developmental Center Project Refunding bonds to advance refund \$10,665,000 of Series 1994 Developmental Center Project bonds. The net proceeds of \$11,442,750 (including an original issue premium of \$110,416 and after payment of \$361,178 in underwriting fees and other issuance costs) plus an additional \$183,512 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1994 bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$1,129,765 and an economic gain of \$692,129.

On November 1, 2003, the Montana Department of Administration (DofA) issued \$8,725,000 of Series 2003H General Obligation Information Technology Refunding bonds to advance refund \$8,335,000 of Series 2000D Information Technology bonds with stated maturities in the years 2006, 2007, 2008, and 2009. The net proceeds of \$8,943,141 (including a reoffering premium of \$344,229 and after payment of \$126,088 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 2000D Information Technology bonds with stated maturities in the years 2006, 2007, 2008, and 2009, are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$299,451 and an economic gain of \$280,140.

Deferred loss on primary government refundings at June 30, 2004, was \$5,438,000.

#### Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the

liability for the defeased bonds are not included in the financial statements. At June 30, 2004, \$38,405,000 of bonds outstanding are considered defeased.

#### **Discretely Presented Component Units**

##### Current Refundings

Housing Authority – On August 14, 2003, Series 2003B bonds were issued in the amount of \$70,700,000. \$20,000,000 of the proceeds were used for a replacement refunding of a portion of the 1995B-1 bonds on September 1, 2003. The refunding resulted in a reduction of debt service to maturity of \$11,216,801 and an economic gain of \$6,589,802.

Deferred loss on Housing Authority refundings at June 30, 2004, was \$1,500,335.

##### Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2004, \$4,965,000 and \$49,351,963 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

#### **G. No-Commitment Debt**

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

**(1) Montana Board of Investments (BOI)** – Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2004, industrial revenue bonds outstanding aggregated \$207.8 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2004, QZAB debt outstanding aggregated \$4.3 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

**(2) Beginning Farm Loan Program** – The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2004, was as follows: Hershberger Project – issued \$129,412, outstanding \$118,125; Young Project – issued \$223,300, outstanding \$222,338.

**(3) Facility Finance Authority (FFA) - Component Unit** – The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2004, revenue bonds outstanding aggregated \$631 million, and notes payable outstanding aggregated \$14 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

## NOTE 12. INTERFUND BALANCES AND TRANSFERS

### A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2004, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
<b>Due From Other Funds</b>						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic Development Bonds	-	-	-	-	1,699	-
Federal Special Revenue	-	-	-	185	6	-
General Fund	6,868	1	774	-	98	-
Internal Service Funds	43	5	1,178	1,674	388	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	32	108	45	-
Nonmajor Governmental Funds	-	-	519	-	112	537
State Special Revenue	196	-	1,358	6,872	304	13,056
Unemployment Insurance	-	-	-	-	1	-
<b>Total</b>	<b>\$7,107</b>	<b>\$6</b>	<b>\$3,861</b>	<b>\$8,839</b>	<b>\$2,653</b>	<b>\$13,593</b>

						Total
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Unemployment Insurance	
<b>Due From Other Funds (continued)</b>						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$1,854	\$ -	\$ 1,854
Economic Development Bonds	-	501	24	918	-	3,142
Federal Special Revenue	-	-	-	590	657	1,438
General Fund	9,490	88	-	1,326	-	18,645
Internal Service Funds	130	157	-	2,606	-	6,181
Land Grant Permanent	-	99	-	177	-	276
Nonmajor Enterprise Funds	-	-	-	47	-	232
Nonmajor Governmental Funds	3	4	-	66	-	1,241
State Special Revenue	67	2,304	-	-	-	24,157
Unemployment Insurance	-	-	-	-	-	1
<b>Total</b>	<b>\$9,690</b>	<b>\$3,153</b>	<b>\$24</b>	<b>\$7,584</b>	<b>\$657</b>	<b>\$57,167</b>

## B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2004, consisted of the following (in thousands):

	Interfund Loans Payable							Total
	Coal Severance Tax Permanent	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	
<b>Interfund Loans Receivable</b>								
Federal Special Revenue	\$ -	\$ -	\$ 50	\$ -	\$ -	\$ 194	\$ -	\$ 244
General Fund	42	24,357	10	120	200	19,607	-	44,336
Internal Service Funds	-	399	-	175	-	-	-	574
Nonmajor Enterprise Funds	-	93	-	-	-	-	-	93
State Special Revenue	-	39,031	2,159	-	430	-	1	41,621
<b>Total</b>	<b>\$42</b>	<b>\$63,880</b>	<b>\$2,219</b>	<b>\$295</b>	<b>\$630</b>	<b>\$19,801</b>	<b>\$1</b>	<b>\$86,868</b>

## C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2004, consisted of the following (in thousands):

	Advances From Other Funds					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	
<b>Advances To Other Funds</b>						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$ -	\$52,469	\$52,469
Economic Development Bonds	-	3,181	-	204	5,797	9,182
Federal Special Revenue	-	100	-	-	-	100
General Fund	40	-	-	-	60	100
Nonmajor Enterprise Funds	75	180	-	-	-	255
Nonmajor Governmental Funds	-	-	-	-	3,002	3,002
State Special Revenue	778	-	10,805	-	-	11,583
<b>Total</b>	<b>\$893</b>	<b>\$3,461</b>	<b>\$10,805</b>	<b>\$204</b>	<b>\$61,328</b>	<b>\$76,691</b>

Advance payable balances at June 30, 2004, owed to the Economic Development Bonds Fund under the INTERCAP loan program, consisted of the following (in thousands):

<b>Department</b>	<b>Balance</b>
Administration	\$ 204
Environmental Quality	1,137
Historical Society	72
Justice	4,417
Natural Resources and Conservation	171
Transportation	3,181
Total	<u>\$9,182</u>

Advance payable balances at June 30, 2004, owed to the Coal Severance Tax Permanent Fund, consisted of the following (in thousands):

<b>Department</b>	<b>Balance</b>
Justice	\$ 2,225
Natural Resources and Conservation	44,546
Revenue	5,698
Total	<u>\$52,469</u>

## D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2004, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
<b>Transfers Out</b>						
Coal Severance Tax Permanent	\$ -	\$ -	\$35,134	\$ -	\$ -	\$ 1,474
Federal Special Revenue	-	-	1	-	3,520	1,979
General Fund	-	-	-	398	47	17,082
Internal Service Funds	-	-	-	550	-	369
Land Grant Permanent	-	-	-	-	-	2,042
Nonmajor Enterprise Funds	-	-	26,298	-	-	-
Nonmajor Governmental Funds	-	-	932	500	-	1,488
State Special Revenue	3,405	20	4,036	719	18	15,318
Unemployment Insurance	-	4,297	-	-	-	-
<b>Total</b>	<b>\$3,405</b>	<b>\$4,317</b>	<b>\$66,401</b>	<b>\$2,167</b>	<b>\$3,585</b>	<b>\$39,752</b>

(1)

	State Special Revenue	Total
<b>Transfers Out (continued)</b>		
Coal Severance Tax Permanent	\$ 7,361	\$ 43,969
Federal Special Revenue	22,165	27,665
General Fund	12,097	29,624
Internal Service Funds	-	919
Land Grant Permanent	63,776	65,818
Nonmajor Enterprise Funds	3,710	30,008
Nonmajor Governmental Funds	16,654	19,574
State Special Revenue	-	23,516
Unemployment Insurance	-	4,297
<b>Total</b>	<b>\$125,763</b>	<b>\$245,390</b>

(2)

- (1) Total transfers-in for non-major enterprise funds on the financial statements is reported as \$3,452,000. The difference of \$133,000 between the amount reported above of \$3,585,000 and the amount reported on the financial statements relates to the movement of general long-term liabilities as a result of reclassifying a federal special revenue fund to the HUD Section 8 Enterprise Fund. The general long-term liabilities related to the federal special revenue fund were assigned to the HUD Section 8 Enterprise Fund. No amounts relating to this transfer were reported in the federal special revenue fund on the fund financial statements, as governmental funds do not record general long-term liabilities. However, because enterprise funds report long-term liabilities in the fund financial statements, the HUD Section 8 fund reported transfer activity related to these liabilities.
- (2) Total transfers-out for all internal service funds on the financial statements is reported as \$1,339,000. The difference of \$420,000 between the amount reported above of \$919,000 and the amount reported on the financial statements relates to the movement of capital assets as a result of combining the Mail & Messenger Internal Service Fund with the Publications & Graphics Internal Service Fund. The new combined fund is reported as the Print & Mail Services Internal Service Fund. When the capital assets were transferred between these funds, the receiving fund recorded the net book value of the capital assets as a capital contribution and the transferring fund recorded the net book value of the capital assets as a transfer-out.

### NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2004, (in thousands):

<b>Fund Type/Fund</b>	<b>Deficit</b>
<b><u>Capital projects funds</u></b>	
Federal/Private Construction Grants	\$ (426)
<b><u>Enterprise funds</u></b>	
MUS Workers Compensation	\$ (127)
Subsequent Injury	\$ (527)
<b><u>Internal service funds</u></b>	
Administration Insurance	\$(21,213)
Administration Central Services	\$ (48)
OPI Central Services	\$ (44)
Justice Legal Services	\$ (86)
<b><u>Pension (and other employee benefit) trust funds</u></b>	
Voluntary Employee Benefit Association	\$ (95)

The net assets deficit in the Administration Insurance and Subsequent Injury funds are due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of these funds.

### NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Fund Reserved fund balances are for the following purposes:

<b>Fund Type/Purpose</b>	<b>Amount</b>
<b><u>State Special Revenue funds</u></b>	
General Government	\$ 15,913
Public Safety/Corrections	174,772
Transportation	40,038
Health/Social Services	6,383
Education/Cultural	3,166
Resource/Recreation/Environment	264,734
Economic Development/Assistance	33,494
Total state special revenue funds	<u>\$538,500</u>
<b><u>Federal Special Revenue funds</u></b>	
General Government	\$ 9,768
Public Safety/Corrections	507
Health/Social Services	1,309
Education/Cultural	11,221
Resource/Recreation/Environment	3,863
Economic Development/Assistance	389
Total federal special revenue funds	<u>\$27,057</u>

Coal Severance Tax Permanent Fund – The reserve for trust principal is comprised of the following: Permanent Coal Tax Trust \$658,947 and the Treasure State Endowment Fund \$128,981 (in thousands).

### NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 57.27% of the Regents' outstanding loan volume, or \$646,792,084, is held by MHESAC. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF), and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2004 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2004 amounted to \$495,739. SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2004, SAF paid OCHE a total of \$146,141.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association \$1 per member per year to maintain its membership as

well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis and consulting services performed by Association staff on behalf of member employers.

## NOTE 16. CONTINGENCIES

### A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In Swingley, et al. v. Montana Highway Patrol, filed in Lewis and Clark County, Highway Patrol officers brought an administrative wage claim seeking payment for overtime hours. In this case, the court held that there was a waiver of sovereign immunity and, therefore, the Fair Labor Standards Act (FLSA) applies. If the class is defined based on the FLSA statute of limitations, that class includes in excess of 200 officers and seeks overtime compensation for all lunch hours for a period of 3 ½ years, and seeks to have overtime and retirement contributions and benefits recalculated based on the

contention that subsistence pay which was to cover meals, travel, uniform maintenance, and a home telephone for each officer should have been included in the officers' base pay. Depending upon the size of the class as defined by the court, the State's potential exposure is \$9 million to \$20 million. This case is scheduled for mediation on December 10, 2004.

### B. Federal Contingencies

USDA Commodities – In fiscal year 2004, the State distributed \$4,780,825 in commodities. The value of the commodities stored in the State's warehouses was \$1,509,580 at June 30, 2004, for which the State is liable in the event of loss.

### C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2004, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$126,787,072. The BOI's exposure to bond issues of the Economic Development Bonds Fund was \$92,052,796, while exposure to bond issues and surety bonds of the Facility Finance Authority was \$34,734,276.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2004, the following assessments (by fund type) were outstanding (in thousands):

		State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Taxes	General				
Coal severance	\$ 542	\$153	\$1,027	\$19	\$238
Oil & gas	1,999	217	-	-	-
Corporation tax	5,050	-	-	-	-
Total	\$7,591	\$370	\$1,027	\$19	\$238

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2004. The corporations have appealed the decision. As of June 30, 2004, these include \$4,917,321 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2004. As of June 30, 2004, these include \$8,950,000 of protested General Fund property taxes.



## **NOTE 17. SUBSEQUENT EVENTS**

### **A. Bond Issues**

On July 8, 2004, the Montana Board of Housing issued \$68 million in Single Family Mortgage Revenue bonds, Series 2004B.

On August 25, 2004, the Department of Natural Resources and Conservation issued \$1.6 million of taxable general obligation Renewable Resource Loan Program bonds, Series 2004B.

On October 26, 2004, Montana State University issued \$23.665 million in Facilities Improvement Revenue bonds, Series 2004H. The bond proceeds will be used to construct and equip a new chemistry/biochemistry building on the Bozeman campus.

On November 10, 2004, the Montana Board of Housing issued \$54.6 million in Single Family Mortgage Revenue bonds, Series 2004C.

### **B. Federal Financial Assistance**

The State receives federal financial assistance for specified purposes, which is subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits become the liability of the State. For fiscal year 2004, the federal government disallowed various National Highway Traffic Safety sub-grant costs. In fiscal year 2005, a payment was made to the federal government in the amount of \$351,154 to reimburse for these disallowed costs.

## **NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS**

### **A. Constitutionality of IRIS Funding**

The State's bond counsel and the State's Legislative Audit Division have raised several legal concerns related to legislation passed by the State's Legislature. A discussion of these concerns and the actions planned to address them follows.

Chapter 597, Laws of 2003, authorized funding not to exceed \$17 million for the Department of Revenue to replace the Process Oriented Integrated System computer system. The replacement system is called the Integrated Revenue Information System (IRIS). In accordance with this legislation, the Department of Revenue entered into an interfund advance agreement

with the Montana Board of Investments to borrow money from the Coal Severance Tax Permanent Fund. As of June 30, 2004, the Department of Revenue had drawn \$5,886,467 on the interfund advance and repaid \$188,025, leaving a balance of \$5,698,442.

The legislation discussed above, related to funding for the IRIS project, authorized state debt without the constitutionally mandated two-thirds vote of the members of each house of the Legislature or a majority of the electors voting on the issue. Although the Department of Revenue liability is reported as an interfund advance payable in the State Special Revenue Fund on the State's financial statements, state law defines state debt as the incurring of an obligation for which repayment extends beyond the existing budgeting and reporting period and for which the source of repayment is revenue derived from the State's taxing power. In addition, the legislation indirectly places the Coal Severance Tax Permanent Fund corpus at risk, and inappropriately delegates authority to allocate state tax resources to the Executive branch.

The 2007 Biennium Executive Budget recommendations submitted to the Fifty-Ninth Legislative Assembly by the State's Governor, includes a recommendation to appropriate funds from the General Fund, which would repay the interfund advance to the Coal Severance Tax Permanent Fund.

### **B. Constitutionality of Retirement System Funding**

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. As of June 30, 2004, there were four retirement systems not in compliance: the Teachers Retirement System (TRS), the Public Employee Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

Based on the results of an actuarial valuation completed in 2004, the TRS Board will recommend options to the Legislature that are considered necessary for the Teachers Retirement System to remain actuarially sound. For the remaining three retirement systems not in compliance, the PERS Board has drafted legislation for the 2005 Legislative Session to address the requirement that the plans remain actuarially sound.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL AND MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**  
(expressed in thousands)

GENERAL FUND				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES</b>				
Licenses/permits	\$ 126,732	\$ 126,732	\$ 130,974	\$ 4,242
Taxes:				
Natural resource	38,283	38,283	53,199	14,916
Individual income	558,009	558,009	534,369	(23,640)
Corporate income	64,812	64,812	63,457	(1,355)
Property	168,604	168,604	168,563	(41)
Fuel	-	-	-	-
Other	197,215	197,215	206,573	9,358
Charges for services/fees/forfeits/settlements	36,340	36,340	40,633	4,293
Investment earnings	14,078	14,078	7,118	(6,960)
Sale of documents/merchandise/property	296	296	311	15
Rentals/leases/royalties	68	68	55	(13)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	1,593	1,593	3,315	1,722
Federal	23,927	23,927	29,132	5,205
Federal indirect cost recoveries	99	99	142	43
Other revenues	1,371	1,371	1,276	(95)
<b>Total revenues</b>	<b>1,231,427</b>	<b>1,231,427</b>	<b>1,239,117</b>	<b>7,690</b>
<b>EXPENDITURES</b>				
Current:				
General government	172,880	190,972	168,870	22,102
Public safety/corrections	131,124	131,992	127,888	4,104
Transportation	177	178	170	8
Health/social services	266,466	266,836	251,556	15,280
Education/cultural	661,918	664,352	662,444	1,908
Resource/recreation/environment	20,060	20,209	20,044	165
Economic development/assistance	21,323	21,323	21,062	261
Debt service:				
Principal retirement	2,338	2,464	620	1,844
Interest/fiscal charges	1,157	1,157	1,158	(1)
Capital outlay	1,408	1,481	1,345	136
<b>Total expenditures</b>	<b>1,278,851</b>	<b>1,300,964</b>	<b>1,255,157</b>	<b>45,807</b>
Excess of revenue over (under) expenditures	(47,424)	(69,537)	(16,040)	53,497
<b>OTHER FINANCING SOURCES (USES)</b>				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
General capital asset sale proceeds	91	91	79	(12)
Transfers in	68,551	68,551	62,503	(6,048)
Transfers out	(19,682)	(19,115)	(15,793)	3,322
<b>Total other financing sources (uses)</b>	<b>48,960</b>	<b>49,527</b>	<b>46,789</b>	<b>(2,738)</b>
Net change in fund balances (Budgetary basis)	1,536	(20,010)	30,749	50,759
<b>RECONCILIATION OF BUDGETARY/GAAP REPORTING</b>				
1. Securities lending income	-	-	374	374
2. Securities lending costs	-	-	(324)	(324)
3. Bond premium	-	-	-	-
4. Inception of lease/installment contract	-	-	648	648
5. Adjust expenditures for encumbrances	-	-	599	599
6. Adjustments for nonbudgeted activity	-	-	59,396	59,396
Net change in fund balances (GAAP basis)	1,536	(20,010)	91,442	111,452
Unreserved fund balances - July 1	43,065	43,065	43,065	-
Prior period adjustments	-	-	(833)	(833)
Decrease (increase):				
Encumbrances reserve	-	-	(578)	(578)
Long-term loans/notes receivable reserve	-	-	1	1
Advances to other funds reserve	-	-	-	-
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(224)	(224)
Unreserved fund balances - June 30	<b>\$ 44,601</b>	<b>\$ 23,055</b>	<b>\$ 132,873</b>	<b>\$ 109,818</b>

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 99,800	\$ 99,800	\$ 108,982	\$ 9,182	\$ -	\$ -	\$ -	\$ -
40,643	40,643	57,386	16,743	-	-	-	-
-	-	234	234	-	-	-	-
-	-	-	-	-	-	-	-
24	24	20	(4)	-	-	-	-
194,854	194,854	197,430	2,576	-	-	-	-
33,251	33,251	45,102	11,851	-	-	-	-
77,790	77,790	73,936	(3,854)	42,809	42,809	72,916	30,107
4,984	4,984	1,915	(3,069)	375	375	247	(128)
11,500	11,500	4,253	(7,247)	1	1	1	-
(731)	(731)	432	1,163	-	-	-	-
6,302	6,302	7,842	1,540	-	-	-	-
24,994	24,994	14,724	(10,270)	65	65	139	74
14,659	14,659	1,578	(13,081)	1,606,239	1,606,239	1,353,461	(252,778)
100	100	34,280	34,180	30,248	30,248	3,330	(26,918)
17,302	17,302	1,888	(15,414)	1,956	1,956	43	(1,913)
525,472	525,472	550,002	24,530	1,681,693	1,681,693	1,430,137	(251,556)
77,936	79,018	71,367	7,651	6,686	15,119	6,545	8,574
40,607	42,117	36,521	5,596	39,824	71,285	38,839	32,446
229,617	283,431	238,875	44,556	329,545	302,804	255,488	47,316
66,595	67,661	52,987	14,674	842,179	853,934	811,549	42,385
67,859	68,427	64,715	3,712	181,458	189,820	170,766	19,054
146,579	149,623	90,667	58,956	107,785	158,599	125,143	33,456
71,127	75,163	49,058	26,105	79,156	83,550	68,946	14,604
8,935	8,410	476	7,934	166	316	238	78
702	702	620	82	20	20	21	(1)
56,834	60,743	26,281	34,462	26,858	56,511	12,750	43,761
766,791	835,295	631,567	203,728	1,613,677	1,731,958	1,490,285	241,673
(241,319)	(309,823)	(81,565)	228,258	68,016	(50,265)	(60,148)	(9,883)
670	670	-	(670)	-	-	-	-
32,898	32,898	2,665	(30,233)	-	-	-	-
11,620	11,620	11,510	(110)	-	-	-	-
218	218	217	(1)	-	-	-	-
138,221	138,221	118,536	(19,685)	37,775	37,775	8,461	(29,314)
(19,162)	(16,782)	(2,784)	13,998	(39,645)	(42,171)	(9,561)	32,610
164,465	166,845	130,144	(36,701)	(1,870)	(4,396)	(1,100)	3,296
(76,854)	(142,978)	48,579	191,557	66,146	(54,661)	(61,248)	(6,587)
-	-	378	378	-	-	-	-
-	-	(328)	(328)	-	-	-	-
-	-	111	111	-	-	-	-
-	-	127	127	-	-	522	522
-	-	(8,513)	(8,513)	-	-	1,718	1,718
-	-	(29,753)	(29,753)	-	-	40,914	40,914
(76,854)	(142,978)	10,601	153,579	66,146	(54,661)	(18,094)	36,567
476,229	476,229	476,229	-	25,450	25,450	25,450	-
-	-	(5,622)	(5,622)	-	-	(2,010)	(2,010)
-	-	10,320	10,320	-	-	(2,439)	(2,439)
-	-	(25,614)	(25,614)	-	-	448	448
-	-	(1,011)	(1,011)	-	-	200	200
-	-	(538,500)	(538,500)	-	-	(13,826)	(13,826)
-	-	(23)	(23)	-	-	-	-
\$ 399,375	\$ 333,251	\$ (73,620)	\$ (406,871)	\$ 91,596	\$ (29,211)	\$ (10,271)	\$ 18,940

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

### NOTE RSI-1. BUDGETARY REPORTING

#### A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and the proposed budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the

Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2004, reverted governmental fund appropriations were as follows: General Fund - \$99.4 million, State Special Revenue Fund - \$107.3 million, and Federal Special Revenue Fund - \$174.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

#### B. Budget Basis

The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

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State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2004

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AMOUNT

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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

02.999	Education in Russia	135,064
	<b>TOTAL</b>	<u><b>\$135,064</b></u>

**PEACE CORPS**

08.999	Miscellaneous Non-Major Grants	12,210
	<b>TOTAL</b>	<u><b>\$12,210</b></u>

**DEPARTMENT OF AGRICULTURE**

10.001	Agricultural Research-Basic and Applied Research	45,972
10.025	Plant and Animal Disease, Pest Control, and Animal Care	887,613
10.069	Conservation Reserve Program	14,771
10.072	Wetlands Reserve Program	1,741
10.156	Federal-State Marketing Improvement Program	25,771
10.162	Inspection Grading and Standardization	69,618
10.163	Market Protection and Promotion	34,712
10.200	Grants for Agricultural Research, Special Research Grants	52,199
10.206	Grants for Agricultural Research-Competitive Research Grants	44,903
10.207	Animal Health and Disease Research	5,104
10.210	Food and Agricultural Sciences National Needs	5,066
10.302	Initiative for Future Agriculture and Food Systems: From Univ. of Wyoming	132,159
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	515,779
10.500	Cooperative Extension Service	3,161,573
10.500	Cooperative Extension Service: From Utah State Univ.	1,759
10.500	Cooperative Extension Service: From Washington State U.	2,397
10.550	Food Donation	2,542,989
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	13,568,466
10.558	Child and Adult Care Food Program	9,168,660
10.560	State Administrative Expenses for Child Nutrition	360,978
10.565	Commodity Supplemental Food Program	1,625,077
10.567	Food Distribution Program on Indian Reservations	3,830,316
10.570	Nutrition Services Incentive	866,616
10.572	WIC Farmers' Market Nutrition Program (FMNP)	77,254
10.574	Team Nutrition Grants	210,910

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
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**AMOUNT**

10.601	Market Access Program: From Univ. of Wisconsin	6,612
10.652	Forestry Research	40,570
10.652	Forestry Research: From A. Carhart	(93)
10.664	Cooperative Forestry Assistance	8,983,955
10.672	Rural Development, Forestry, and Communities	443,017
10.677	Forest Land Enhancement Program	72,489
10.769	Rural Business Enterprise Grants	17,899
10.771	Rural Cooperative Development Grants	169,056
10.773	Rural Business Opportunity Grants	304,199
10.855	Distance Learning and Telemedicine Loans and Grants	186,240
10.901	Resource Conservation and Development: From Dull Knife C.C.	(613)
10.902	Soil and Water Conservation	313,231
10.999	Miscellaneous Non-Major Grants	861,845

**TOTAL** **\$48,650,810**

**CHILD NUTRITION CLUSTER**

10.553	School Breakfast Program	3,838,161
10.555	National School Lunch Program	16,046,711
10.556	Special Milk Program for Children	37,068
10.559	Summer Food Service Program for Children	799,560

**TOTAL** **\$20,721,500**

**EMERGENCY FOOD ASSISTANCE CLUSTER**

10.568	Emergency Food Assistance Program (Administrative Costs)	223,035
10.569	Emergency Food Assistance Program (Food Commodities)	1,123,897

**TOTAL** **\$1,346,932**

**FOOD STAMP CLUSTER**

10.551	Food Stamps	77,555,762
10.561	State Administrative Matching Grants for Food Stamp Program	6,821,692

**TOTAL** **\$84,377,454**

**SCHOOLS AND ROADS CLUSTER**

10.665	Schools and Roads: Grants to States	12,426,043
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**TOTAL** **\$12,426,043**

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State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2004

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AMOUNT

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**DEPARTMENT OF COMMERCE**

11.550	Public Telecommunication Facilities-Planning and Construction	1,900,123
11.552	Technology Opportunities Program	61,190
	<b>TOTAL</b>	<b>\$1,961,313</b>

***PUBLIC WORKS AND E.D. CLUSTER***

11.307	Economic Adjustment Assistance	520,306
	<b>TOTAL</b>	<b>\$520,306</b>

**DEPARTMENT OF DEFENSE**

12.110	Planning Assistance to States	611,847
12.112	Payments to States in Lieu of Real Estate Taxes	33,201
12.400	Military Construction National Guard	1,216,072
12.401	National Guard Military Operations and Maintenance Projects	11,127,302
12.404	National Guard Civilian Youth Opportunities	1,657,582
12.999	Miscellaneous Non-Major Grants	1,152,938
	<b>TOTAL</b>	<b>\$15,798,942</b>

**DEPARTMENT OF HOUSING & URBAN DEVELOPMENT**

14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	238,508
14.228	Community Development Block Grant/States Program	9,331,005
14.231	Emergency Shelter Grants Program	376,477
14.239	Home Investment Partnerships Program	6,116,415
14.241	Housing Opportunities for Persons with AIDS	363,310
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	985,807
14.871	Section 8 Housing Choice Vouchers	17,278,245
	<b>TOTAL</b>	<b>\$34,689,767</b>

***SECTION 8 PROJECT-BASED CLUSTER***

14.195	Section 8 Housing Assistance Payments Program Special Allocations	15,688,425
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	2,123,719
	<b>TOTAL</b>	<b>\$17,812,144</b>

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State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2004

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AMOUNT

**DEPARTMENT OF THE INTERIOR**

15.034	Agriculture on Indian Lands	137,707
15.043	Indian Child and Family Education	6,268
15.114	Indian Education: Higher Education Grant Program	75,343
15.130	Indian Education - Assistance to Schools	31,766
15.224	Cultural Resource Management	79,816
15.225	Recreation Resource Management	20,486
15.227	Distribution of Receipts to State and Local Governments	223,493
15.228	Wildland Urban Interface Community and Rural Fire Assistance	(81,031)
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,029,861
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,759,658
15.504	Water Reclamation and Water Reuse Program	123,415
15.608	Fish and Wildlife Management Assistance	34,281
15.612	Endangered Species Section 6	84,303
15.615	Cooperative Endangered Species Conservation Fund	200,667
15.634	State Wildlife Grants	958,809
15.805	Assistance to State Water Resources Research Institutes	5,529
15.808	U.S. Geological Survey-Research and Data Acquisition	29,402
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	71,500
15.812	Cooperative Research Units Program: From MT Lewis & Clark Bic.	7,728
15.904	Historic Preservation Fund Grants-in-Aid	1,115,127
15.912	National Historic Landmark	103,721
15.915	Technical Preservation Services	45,032
15.916	Outdoor Recreation: Acquisition, Development and Planning	22,999
15.923	National Center for Preservation Technology and Training	280,490
15.999	Miscellaneous Non-Major Grants	4,726,653
15.DAK	Wildlife Management	197,178
15.DAX	Fire - Rural Assistance	620,196

**TOTAL** \$14,910,397

**FISH AND WILDLIFE CLUSTER**

15.605	Sport Fish Restoration	6,090,163
15.611	Wildlife Restoration	6,019,353

**TOTAL** \$12,109,516



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State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2004

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AMOUNT

**DEPARTMENT OF JUSTICE**

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	19,180
16.202	Offender Reentry Program	615,285
16.523	Juvenile Accountability Incentive Block Grants	924,751
16.525	Grants to Reduce Violent Crimes Against Women on Campus	154,231
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	951,459
16.543	Missing Children Assistance	6,747
16.547	Victims of Child Abuse	61,609
16.549	Part E State Challenge Activities	85,844
16.550	State Justice Statistics Program For Statistical Analysis Centers	44,273
16.554	National Criminal History Improvement Program (NCHIP)	703,112
16.575	Crime Victim Assistance	1,510,938
16.576	Crime Victim Compensation	309,000
16.579	Byrne Formula Grant Program	2,741,171
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	175,541
16.585	Drug Court Discretionary Grant Program	25,999
16.588	Violence Against Women Formula Grants	1,001,529
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	139,836
16.592	Local Law Enforcement Block Grants Program	213,521
16.593	Residential Substance Abuse Treatment for State Prisoners	386,608
16.606	State Criminal Alien Assistance Program	49,837
16.609	Community Prosecution and Project Safe Neighborhoods	28,461
16.710	Public Safety Partnership and Community Policing Grants	2,778,056
16.727	Enforcing Underage Drinking Laws Program	360,002
16.999	Miscellaneous Non-Major Grants	42,727

**TOTAL**      **\$13,329,717**

**DEPARTMENT OF LABOR**

17.002	Labor Force Statistics	711,212
17.005	Compensation and Working Conditions	47,339
17.203	Labor Certification for Alien Workers	62,378
17.225	Unemployment Insurance	101,165,703

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ending June 30, 2004**

	<b>AMOUNT</b>
17.235 Senior Community Service Employment Program	555,778
17.245 Trade Adjustment Assistance-Workers	2,887,835
17.248 Employment and Training Research and Development Projects	10,626
17.249 Employment Services and Job Training: Pilot and Demonstration Programs: From MT Job Training Program	97,801
17.261 Employment and Training Administration Pilots, Demonstrations, and Research Projects	241,716
17.267 WIA Incentive Grants - Section 503 Grants to States	4,729
17.504 Consultation Agreements	411,282
17.720 Employment Programs for People with Disabilities: From MT Job Training Part. Inc	177,406
17.802 Veterans' Employment Program	248
17.999 National Occupational Information Coordinating Committee	5,616
<b>TOTAL</b>	<b>\$106,379,669</b>

**EMPLOYMENT SERVICES CLUSTER**

17.207 Employment Service	6,213,581
17.207 Employment Service: From S. Carolina Emp. Comm.	6,068
17.207 Employment Service: From State of Nevada	5,191
17.207 Employment Service: From N. Carolina Emp. Comm.	4,670
17.207 Employment Service: From MT Job Training Program	1,276
17.801 Disabled Veterans Outreach Program (DVOP)	461,244
17.804 Local Veterans' Employment Representative Program	260,453
<b>TOTAL</b>	<b>\$6,952,483</b>

**WORKFORCE INVESTMENT ACT CLUSTER**

17.258 WIA Adult Program	2,849,111
17.259 WIA Youth Activities	2,920,082
17.260 WIA Dislocated Workers	8,225,997
<b>TOTAL</b>	<b>\$13,995,190</b>

**DEPARTMENT OF STATE**

19.404 Professional Development International Educators/Administrators	54,917
19.405 College and University Partnerships Program	18,732
19.408 Educational Exchange - Teachers from Secondary and Postsecondary Levels	77,935
19.420 Cooperative Grants: From NAFSA: Assoc. of Int. Ed.	2,372
19.999 Miscellaneous Grants	65,030

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2004

		AMOUNT
		<hr/>
		<i>TOTAL</i>
		<hr/> \$218,986
 <b>DEPARTMENT OF TRANSPORTATION</b>		
20.005	Boating Safety Financial Assistance	309,840
20.106	Airport Improvement Program	487,964
20.218	National Motor Carrier Safety	1,194,247
20.219	Recreational Trails Program	648,790
20.505	Federal Transit - Metropolitan Planning Grants	293,295
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	369,502
20.700	Pipeline Safety	13,732
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	109,525
		<hr/>
		<i>TOTAL</i>
		<hr/> \$3,426,895
 <b>FEDERAL TRANSIT CLUSTER</b>		
20.500	Federal Transit Capital Improvement Grants	109,239
20.507	Federal Transit - Formula Grants	2,288,393
		<hr/>
		<i>TOTAL</i>
		<hr/> \$2,397,632
 <b>HIGHWAY PLAN. &amp; CONST. CLUSTER</b>		
20.205	Highway Planning and Construction	274,873,401
		<hr/>
		<i>TOTAL</i>
		<hr/> \$274,873,401
 <b>HIGHWAY SAFETY CLUSTER</b>		
20.600	State and Community Highway Safety	10,638,992
		<hr/>
		<i>TOTAL</i>
		<hr/> \$10,638,992
 <b>DEPARTMENT OF TREASURY</b>		
21.999	Miscellaneous Non-Major Grants	43,796,375
		<hr/>
		<i>TOTAL</i>
		<hr/> \$43,796,375
 <b>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>		
30.002	Employment Discrimination-State and Local Fair Employment Practices	108,363
		<hr/>
		<i>TOTAL</i>
		<hr/> \$108,363
 <b>GENERAL SERVICES ADMINISTRATION</b>		
39.003	Donation of Federal Surplus Personal Property	195,759

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State of Montana  
**Schedule of Expenditures of Federal Awards**  
For the Fiscal Year Ending June 30, 2004

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**AMOUNT**

39.011	Election Reform Payments	1,440,529
	<b>TOTAL</b>	<b>\$1,636,288</b>

**NATIONAL AERONAUTICS AND SPACE ADMINISTRATION**

43.000	NASA	37,185
43.001	Aerospace Education Services Program	21,391
43.001	Aerospace Education Services Program: From JASON Foundation	12,711
43.002	Technology Transfer: From LBJ Space Center	9,359
43.002	Technology Transfer: From Texas A&M	122,135
	<b>TOTAL</b>	<b>\$202,781</b>

**NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES**

45.024	Promotion of the Arts-Grants to Organizations and Individuals	15,232
45.025	Promotion of the Arts-Partnership Agreements	579,935
45.026	Promotion of the Arts-Leadership Initiatives	6,184
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm. of the Hum.	23,703
45.149	Promotion of the Humanities Division of Preservation and Access: From Oregon State Univ.	23,891
45.162	Promotion of the Humanities - Teaching and Learning Resources and Curriculum Development: From MT Comm. of the Hum.	587
45.301	Museum for America Grants	727,164
45.312	National Leadership Grants	86,623
45.313	Librarians for the 21st Century	11,145
45.999	Miscellaneous Grants	4,589
	<b>TOTAL</b>	<b>\$1,479,053</b>

**NATIONAL SCIENCE FOUNDATION**

47.041	Engineering Grants	26,772
47.050	Geosciences	(33,702)
47.070	Computer and Information Science and Engineering	9,469
47.074	Biological Sciences	122,150
47.075	Social, Behavioral, and Economic Sciences	89,088
47.076	Education and Human Resources	2,495,142
47.076	Education and Human Resources: From City Univ. of New York	30,719

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State of Montana  
Schedule of Expenditures of Federal Awards  
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**AMOUNT**

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47.076	Education and Human Resources: From Assoc. of Amer. Colleges	525
<b>TOTAL</b>		<b>\$2,740,163</b>

**SMALL BUSINESS ADMINISTRATION**

59.037	Small Business Development Center	643,673
59.046	Microloan Program	79,247
<b>TOTAL</b>		<b>\$722,920</b>

**DEPARTMENT OF VETERANS AFFAIRS**

64.010	VETERANS NURSING HOME CARE	22,415
64.011	Veterans Dental Care	20
64.014	Veterans State Domiciliary Care	59,081
64.015	Veterans State Nursing Home Care	2,848,665
64.120	Post-Vietnam Era Veterans' Educational Assistance	147
64.124	All-Volunteer Force Educational Assistance	68,520
64.203	State Cemetery Grants	17,062
<b>TOTAL</b>		<b>\$3,015,910</b>

**ENVIRONMENTAL PROTECTION AGENCY**

66.418	Construction Assistance for Wastewater Treatment Works	(964)
66.433	State Underground Water Source Protection	106,876
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	22,910
66.454	Water Quality Management Planning	196,241
66.458	Capitalization Grants For State Revolving Funds	17,891,221
66.460	Nonpoint Source Implementation Grants	2,310,788
66.461	Wetland Program Grants	258,780
66.463	Water Quality Cooperative Agreements	37,123
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	69,785
66.468	Capitalization Grants for Drinking Water State Revolving Fund	5,666,704
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	152,480
66.474	Water Protection Grants to the States	137,342
66.500	Environmental Protection - Consolidated Research	8,708
66.500	Environmental Protection - Consolidated Research: From Colorado State Univ.	80,258

State of Montana  
**Schedule of Expenditures of Federal Awards**  
For the Fiscal Year Ending June 30, 2004

	AMOUNT
66.605 Performance Partnership Grants	6,414,884
66.606 Surveys, Studies, Investigations and Special Purpose Grants	23,359
66.607 Training and Fellowships for the Environmental Protection Agency	7,061
66.608 Environmental Information Exchange Network Grant Program	57,580
66.708 Pollution Prevention Grants Program	107,824
66.711 Environmental Justice through Pollution Prevention Grants	5,798
66.802 Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements	981,826
66.805 Leaking Underground Storage Tank Trust Fund Program	747,574
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements	746,558
66.811 Brownfield Pilots Cooperative Agreements	52,188
66.817 State and Tribal Response Program Grants	246,795
66.950 Environmental Education and Training Program: From Univ. of Wisconsin	18,256
66.951 Environmental Education Grants	72,176
<b>TOTAL</b>	<b>\$36,420,131</b>

**DEPARTMENT OF ENERGY**

81.041 State Energy Program	388,366
81.042 Weatherization Assistance for Low-Income Persons	2,550,936
81.049 Office of Science Financial Assistance Program: From Inland NW Res. Alliance	343,563
81.086 Conservation Research and Development	2,395,873
81.104 Office of Environmental Cleanup and Acceleration: From MSE Inc.	300,580
81.116 Science and Engineering Training to Support Diversity-Related Programs: From Inland NW Res. Alliance	157,542
81.119 State Energy Program Special Projects	51,589
<b>TOTAL</b>	<b>\$6,188,449</b>

**DEPARTMENT OF EDUCATION**

84.002 Adult Education - State Grant Program	1,431,563
84.010 Title I Grants To Local Education Agencies	37,487,341
84.011 Migrant Education - State Grant Program	847,717
84.013 Title I Program for Neglected and Delinquent Children	184,646
84.015 National Resource Centers and Fellowships Program for Language and Area or Language: From Univ. of Colorado	28,998
84.016 Undergraduate International Studies and Foreign Language	57,263

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
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	<b>AMOUNT</b>
84.021 International: Overseas-Group Projects Abroad	34,080
84.048 Vocational Education - Basic Grants to States	5,523,932
84.069 Leveraging Educational Assistance Partnership	396,389
84.083 Women's Educational Equity Act Program	146,769
84.116 Fund for the Improvement of Postsecondary Education	1,556,715
84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	10,593,528
84.129 Rehabilitation Long-Term Training	87,176
84.133 National Institute on Disability and Rehabilitation Research	50,628
84.133 National Institute on Disability and Rehabilitation Research: From Brain Injury Assoc.	59,888
84.153 Business and International Education	80,801
84.162 Immigrant Education	28
84.169 Independent Living-State Grants	272,238
84.177 Rehabilitation Services-Independent Living Services for Older Individuals/Blind	300,331
84.181 Special Education-Grants for Infants and Families with Disabilities	1,966,448
84.184 Safe and Drug-Free Schools and Communities - National Programs	347,840
84.185 Byrd Honors Scholarships	159,000
84.186 Safe and Drug-Free Schools and Communities - State Grants	2,153,493
84.187 Supported Employment Services for Individuals with Severe Disabilities	180,493
84.195 Bilingual Education - Professional Development	842,982
84.196 Education for Homeless Children and Youth	210,797
84.213 Even Start - State Educational Agencies	1,006,433
84.215 Fund for Improvement of Education	192,042
84.215 Fund for Improvement of Education: From Golden Triangle	700
84.215 Fund for Improvement of Education: From Anaconda School Dist.	11,531
84.224 State Grants for Assistive Technology	332,777
84.234 Projects with Industry	116,378
84.235 Rehabilitation Services Demonstration and Training Programs	674,024
84.243 Tech-Prep Education	526,774
84.256 Freely Associated States - Education Grant Program: From Univ. of Calif.	41,862
84.264 Rehabilitation Training-Continuing Education	103,425
84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	54,358
84.281 Eisenhower Professional Development State Grants	273,237
84.287 Twenty-First Century Community Learning Centers	2,884,400

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
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	<b>AMOUNT</b>
84.295 Ready-To-Learn Television: From PBS	73,648
84.298 State Grants for Innovative Programs	1,829,760
84.299 Indian Education - Special Programs	316,661
84.303 Technology Innovation Challenge Grants	179,604
84.303 Technology Innovation Challenge Grants: From Polson Public Schools	455,989
84.314 Even Start - Statewide Family Literacy Program	57,599
84.318 Education Technology State Grants	2,898,190
84.323 Special Education - State Program Improvement Grants for Children with Disabilities	752,607
84.324 Special Education-Research and Innovation to Improve Services and Results for Children	556,990
84.325 Special Education - Personnel Preparation to Improve Services and Results for Children	214,455
84.326 Special Education - Technical Assistance and Dissemination to Improve Services and Results	162,203
84.330 Advanced Placement Program	285,961
84.331 Grants to States for Incarcerated Youth Offenders	40,162
84.332 Comprehensive School Reform Demonstration	807,063
84.334 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,226,262
84.335 Child Care Access Means Parents in School	33,347
84.338 Reading Excellence	4,896,889
84.341 Community Technology Centers	19,842
84.342 Preparing Tomorrow's Teachers to Use Technology	35,712
84.346 Vocational Education - Occupational and Employment Information State Grants	127,942
84.348 Title I Accountability Grants	64,972
84.352 School Renovation Grants	316,856
84.357 Reading First State Grants	2,042,092
84.358 Rural Education	543,976
84.360 Dropout Prevention Programs	239,434
84.365 English Language Acquisition Grants	602,770
84.366 Mathematics and Science Partnerships	45,488
84.367 Improving Teacher Quality State Grants	13,213,256
84.369 Grants for State Assessments and Related Activities	2,992,072
84.999 Miscellaneous Non-Major Grants	148,522
93.364 Nursing Student Loan Program	6,517
<b>TOTAL</b>	<b>\$107,405,866</b>



State of Montana  
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AMOUNT

**SPECIAL EDUCATION CLUSTER**

84.027	Special Education - Grants to States	27,747,063
84.173	Special Education - Preschool Grants	1,257,084
<b>TOTAL</b>		<b>\$29,004,147</b>

**STUDENT FINANCIAL ASSISTANCE CLUSTER**

84.007	Federal Supplemental Educational Opportunity Grants	1,913,102
84.032	Federal Family Education Loans	1,829,421
84.033	Federal Work - Study Program	2,416,656
84.038	Federal Perkins Loan Program - Federal Capital Contributions	566,190
84.063	Federal Pell Grant Program	34,738,054
84.268	Federal Direct Student Loans	62,582
93.364	Nursing Student Loan Program	172,373
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	398,243
<b>TOTAL</b>		<b>\$42,096,621</b>

**TRIO CLUSTER**

84.042	TRIO-Student Support Services	1,133,518
84.044	TRIO-Talent Search	872,238
84.047	TRIO-Upward Bound	1,701,629
84.066	TRIO-Educational Opportunity Centers	577,438
84.217	McNair Post - Baccalaureate Achievement	220,442
<b>TOTAL</b>		<b>\$4,505,265</b>

**NATIONAL ARCHIVES AND RECORDS ADMINISTRATION**

89.003	National Historical Publications and Records Grants: From Pacific Lutheran Univ.	55,844
<b>TOTAL</b>		<b>\$55,844</b>

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

93.003	Public Health and Social Services Emergency Fund	1,114,811
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	27,249
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	66,141
93.043	Special Programs for the Aging-Title III, Part D -DiseasePrevention/Health Promotion Serv	108,496
93.048	Special Programs for the Aging-Title IV and Title II - Discretionary Projects	152,718

**State of Montana**  
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	<b>AMOUNT</b>
93.052 Nation Family Caregiver Support Program	834,369
93.103 Food and Drug Administration Research	945
93.110 Maternal and Child Health Federal Consolidated Programs	222,071
93.116 Project Grant and Cooperative Agreements for Tuberculosis Control Program	218,981
93.127 Emergency Medical Services for Children	164,115
93.130 Primary Care Services-Resource Coordination and Development	302,022
93.150 Projects for Assistance in Transition from Homelessness (PATH)	301,397
93.157 Centers of Excellence	226,760
93.161 Health Program for Toxic Substances and Disease Registry	583,426
93.184 Disabilities Prevention	283,108
93.217 Family Planning Services	1,969,376
93.230 Consolidated Knowledge Development and Application Program	413,533
93.234 Traumatic Brain Injury-State Demonstration Grant Program	140,430
93.235 Abstinence Education	235,498
93.238 Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	171,432
93.241 State Rural Hospital Flexibility Program	653,369
93.243 Substance Abuse and Mental Health Services-Projects of Regional and National Significance	484,674
93.251 Universal Newborn Hearing Screening	78,755
93.256 State Planning Grant - Health Care Access for the Uninsured	225,198
93.259 Rural Access to Emergency Devices Grant	196,445
93.263 Occupational Safety and Health Training Grant	61,484
93.268 Immunization Grant	3,941,384
93.282 Mental Health National Research Service Awards for Research Training	41,228
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	10,924,592
93.288 National Health Service Corps Scholarship Program	(94)
93.301 Small Rural Hospital Improvement Grants	381,901
93.359 Nurse Education, Practice and Retention Grants	159,903
93.375 Minority Biomedical Research Support	937,500
93.389 National Center for Research Resources: From Univ. of Wyoming	20,833
93.556 Promoting Safe and Stable Families	953,436
93.558 Temporary Assistance for Needy Families (TANF)	31,186,103
93.563 Child Support Enforcement	8,670,872

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
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	<b>AMOUNT</b>
93.566 Refugee and Entrant Assistance-State Administered Programs	97,928
93.568 Low Income Home Energy Assistance	12,190,840
93.569 Community Services Block Grant	3,051,957
93.570 Community Services Block Grant - Discretionary Awards: From National Youth Sports	84,931
93.576 Refugee and Entrant Assistance-Discretionary Grants	55,832
93.586 State Court Improvement Program	75,658
93.590 Community-Based Family Resource and Support Grants	157,124
93.597 Grants to States for Access and Visitation Programs	101,516
93.599 Chafee Education and Training Vouchers Program (ETV)	34,779
93.600 Head Start	157,270
93.601 Child Support Enforcement Demonstrations and Special Projects	129,006
93.603 Adoption Incentive Payments	(4,296)
93.612 Native American Programs	8,240
93.617 Voting Access for Individuals with Disabilities - Grants to States	93,462
93.630 Developmental Disabilities Basic Support and Advocacy Grants	194
93.630 Developmental Disabilities Basic Support and Advocacy Grants: From MT Ccl on Dev. Disab.	23,279
93.630 Developmental Disabilities Basic Support and Advocacy Grants: From Dev. Disabled Council	393,594
93.631 Developmental Disabilities Projects of National Significance	65,874
93.632 University Centers for Excellence in Developmental Disabilities Ed., Research, and Service	417,255
93.643 Children's Justice Grants to States	75,603
93.645 Child Welfare Service-State Grant	891,237
93.658 Foster Care Title IV-E	10,537,496
93.659 Adoption Assistance	4,150,823
93.667 Social Services Block Grant	7,228,825
93.669 Child Abuse and Neglect State Grants	72,273
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	827,866
93.674 Chafee Foster Care Independent Living	452,280
93.767 State Children's Insurance Program	13,639,691
93.822 Health Careers Opportunities Program	317,048
93.822 Health Careers Opportunities Program: From Univ. of Washington	21,082
93.824 Basic/Core Area Health Education Centers: From Univ. of Washington	32,517
93.847 Diabetes, Endocrinology and Metabolism Research	13,170

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		<b>AMOUNT</b>
93.912	Rural Health Outreach-Rural Network Developmental Program: From Univ. of Washington	15,049
93.913	Grants to States for Operation of Offices of Rural Health	178,816
93.917	HIV Care Formula Grants	795,951
93.919	Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	(1,319)
93.938	Cooperative Agreements to Support School Health Programs - Prevent the Spread of HIV	241,097
93.940	HIV Prevention Activities-Health Department Based	1,378,126
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	68,879
93.945	Assistance Program for Chronic Disease Prevention	836,823
93.958	Block Grants for Community Mental Health Services	324,114
93.959	Block Grants for Prevention and Treatment of Substance Abuse	6,215,093
93.969	Geriatric Education Centers	288,123
93.970	Health Professions Recruitment Program for Indians	472,217
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	297,169
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	650,071
93.991	Preventive Health and Health Services Block Grant	824,898
93.994	Maternal and Child Health Services Block Grant to the States	2,511,408
93.999	Miscellaneous Non-Major Grants	411,439
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	40,013
93.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	(45)
93.999	Miscellaneous Non-Major Grants: From St. James Healthcare	15,147
<b>TOTAL</b>		<b>\$137,411,884</b>
 <b>AGING CLUSTER</b>		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,834,829
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,784,391
<b>TOTAL</b>		<b>\$4,619,220</b>
 <b>CHILD CARE CLUSTER</b>		
93.575	Child Care and Development Block Grant	9,008,841
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	8,435,941
<b>TOTAL</b>		<b>\$17,444,782</b>

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**CONSOLIDATED HEALTH CENTERS CLUSTER**

93.224	Community Health Centers: From Partnership Health Center	8,865
		<b>TOTAL</b>
		<b>\$8,865</b>

**MEDICAID CLUSTER**

93.775	State Medicaid Fraud Control Units	394,466
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,107,655
93.778	Medical Assistance Program	516,532,595
		<b>TOTAL</b>
		<b>\$519,034,716</b>

**CORPORATION FOR NATIONAL & COMMUNITY SERVICE**

94.003	State Commissions	144,169
94.004	Learn and Serve America-School and Community Based Programs: From Corp. for National Serv.	119,969
94.005	Learn & Serve America-Higher Education	242,253
94.005	Learn & Serve America-Higher Education: From Brown Univ.	42,114
94.006	AmeriCorps	2,038,004
94.007	Planning and Program Development Grants	52,803
94.009	Training and Technical Assistance	92,455
94.013	Volunteers in Service to America: From Corp. for National Serv.	302,245
		<b>TOTAL</b>
		<b>\$3,034,012</b>

**SOCIAL SECURITY ADMINISTRATION**

96.007	Social Security Research and Demonstration	63,507
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	61,261
		<b>TOTAL</b>
		<b>\$124,768</b>

**DISABILITY INSURANCE/SSI CLUSTER**

96.001	Social Security - Disability Insurance	4,517,955
		<b>TOTAL</b>
		<b>\$4,517,955</b>

**HOMELAND SECURITY**

97.004	State Domestic Preparedness Equipment Support Program	4,626,654
97.005	State and Local Homeland Security Training Program	61,563
97.016	Reimbursement for Firefighting on Federal Property	346,424
97.021	Hazardous Materials Assistance Program	15,833

**State of Montana**  
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		AMOUNT
97.023	Community Assistance Program State Support Services Element	83,126
97.029	Flood Mitigation Assistance	40,150
97.036	Public Assistance Grants	96,119
97.038	First Responder Anti-Terrorism Training Assistance: From Butte Silverbow County	2,742
97.039	Hazard Mitigation Grant	273,720
97.041	National Dam Safety Program	133,007
97.042	Emergency Management Performance Grants	1,509,209
97.046	Fire Management Assistance Grant	32,122,151
97.047	Pre-Disaster Mitigation	171,040
97.051	State and Local All Hazards Emergency Operations Planning	246,708
97.052	Emergency Operations Centers	47,897
97.053	Citizen Corps	23,178
97.054	Community Emergency Response Teams	133,818
97.999	Miscellaneous Non-Major Grants	69,707
<b>TOTAL</b>		<b>\$40,003,046</b>

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**

98.005	Institutional Support Assistance (ISA): From Agency for Inter. Dev..	2,075
<b>TOTAL</b>		<b>\$2,075</b>

**OTHER FEDERAL**

07.000	National Drug Control Program	28,942
<b>TOTAL</b>		<b>\$28,942</b>

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State of Montana  
Schedule of Expenditures of Federal Awards  
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**RESEARCH AND DEVELOPMENT CLUSTER**

**DEPARTMENT OF AGRICULTURE**

10.001	Agricultural Research-Basic and Applied Research	334,688
10.025	Plant and Animal Disease, Pest Control, and Animal Care	174,042
10.200	Grants for Agricultural Research, Special Research Grants	3,722,413
10.200	Grants for Agricultural Research, Special Research Grants: From Kansas State	410,699
10.200	Grants for Agricultural Research, Special Research Grants: From MT Microbial Products	640
10.200	Grants for Agricultural Research, Special Research Grants: From N. Mexico Univ.	73,165
10.200	Grants for Agricultural Research, Special Research Grants: From N. Dakota State	46,962
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	49,852
10.200	Grants for Agricultural Research, Special Research Grants: From Salish Kootenai College	94
10.200	Grants for Agricultural Research, Special Research Grants: From S. Dakota St. Univ.	9,113
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calif. Davis	15,147
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Univ.	108,286
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Univ.	14,491
10.200	Grants for Agricultural Research, Special Research Grants: From Washington State U.	19,804
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Washington	5,157
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	141,528
10.202	Cooperative Forestry Research	32,558
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,022,071
10.206	Grants for Agricultural Research-Competitive Research Grants	1,474,098
10.206	Grants for Agricultural Research-Competitive Research Grants: From Fort Peck C.C.	10,144
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Wyoming	14,191
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ of Wisconsin	16,722
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ of Missouri	15,024
10.212	Small Business Innovation Research: From Envir. & Petro Consult.	1,770

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**AMOUNT**

10.215	Sustainable Agriculture Research and Education: From Utah State Univ.	35,236
10.217	Higher Education Challenge Grants	141,913
10.224	Fund for Rural America-Research, Education, and Extension Activities: From Univ. of Minnesota	102,961
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants: From Dull Knife C.C.	6,617
10.227	1994 Institutions Research Program: From Dull Knife C.C.	(5,152)
10.227	1994 Institutions Research Program: From Fort Peck C.C.	17,029
10.250	Agricultural and Rural Economic Research	65,515
10.302	Initiative for Future Agriculture and Food Systems	626,254
10.302	Initiative for Future Agriculture and Food Systems: From N. Dakota State	57,818
10.302	Initiative for Future Agriculture and Food Systems: From Univ. of Calif. Davis	146,182
10.302	Initiative for Future Agriculture and Food Systems: From Utah State Univ.	125,014
10.302	Initiative for Future Agriculture and Food Systems: From University of Wyoming	25,000
10.303	Integrated Programs	82,113
10.303	Integrated Programs: From Colorado State Univ.	95,595
10.303	Integrated Programs: From Univ. of Calif. Davis	10,748
10.304	Homeland Security - Agricultural: From Kansas State	13,803
10.450	Crop Insurance	22,218
10.450	Crop Insurance: From Fort Peck C.C.	54,143
10.450	Crop Insurance: From Univ. of Wyoming	30,612
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	4,884
10.500	Cooperative Extension Service	100,774
10.500	Cooperative Extension Service: From Fort Peck C.C.	4,309
10.500	Cooperative Extension Service: From MT Grain Growers	584
10.500	Cooperative Extension Service: From Utah State Univ.	7,551
10.500	Cooperative Extension Service: From Univ. of Tennessee	2,846
10.500	Cooperative Extension Service: From Washington State U.	11,829
10.500	Cooperative Extension Service: From Univ. of Wyoming	1,163
10.500	Cooperative Extension Service: From Michigan State	(178)
10.567	Food Distribution Program on Indian Reservations	21,232
10.652	Forestry Research	3,830,323
10.652	Forestry Research: From Nat. Fish & Wildlife Fd.	41,057



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**AMOUNT**

10.652	Forestry Research: From A. Carhart	30,280
10.652	Forestry Research: From Colorado State Univ.	1,074
10.652	Forestry Research: From A. Carhart	16,650
10.664	Cooperative Forestry Assistance	96,088
10.672	Rural Development, Forestry, and Communities	6,968
10.678	Forest Sewardship Program	29,618
10.769	Rural Business Enterprise Grants: From Kansas State	932
10.901	Resource Conservation and Development: From Dull Knife C.C.	425
10.901	Resource Conservation and Development: From Nat Fish & Wlf. Found.	58,639
10.902	Soil and Water Conservation	42,135
10.912	Environmental Quality Incentives Program	6,971
10.914	Wildlife Habitat Incentive Program	4,074
10.960	Technical Agricultural Assistance: From Intern. Livestock Res.	94
10.961	Scientific Cooperation and Research	117,171
<b>TOTAL</b>		<b>\$14,803,771</b>

**DEPARTMENT OF COMMERCE**

11.112	Export Promotion Market Development Cooperation	148,208
11.302	Economic Development Support for Planning Organizations	19,999
11.303	Economic Development-Technical Assistance	83,521
11.312	Research and Evaluation Program	712
11.427	Fisheries Development & Utilization Research and Development Grants	26,431
11.431	Climate and Atmospheric Research	15,269
11.432	Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes: From Res. Corp - U. of Hawaii	2,722
11.433	Marine Fisheries Initiative	322
11.439	Marine Mammal Data Program	24,575
11.440	Environmental Sciences, Applications, Data, and Education	82,050
11.460	Special Oceanic and Atmospheric Projects	18,084
11.463	Habitat Conservation	4,879
11.478	Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	17,986
11.552	Technology Opportunities Program	285,355

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11.611	Manufacturing Extension Partnership	464,947
	<b>TOTAL</b>	<b>\$1,195,060</b>

**DEPARTMENT OF DEFENSE**

12.002	Procurement Technical Assistance For Business Firms: From Big Sky Econ. Dev.	2,082,564
12.100	Aquatic Plant Control	131,567
12.114	Collaborative Research and Development	81,776
12.114	Collaborative Research and Development: From Univ. of Alabama	56,435
12.114	Collaborative Research and Development: From Nat. Research Council	2,088
12.300	Basic and Applied Scientific Research	1,808,641
12.300	Basic and Applied Scientific Research: From Scientific Materials	619,729
12.300	Basic and Applied Scientific Research: From Space & Naval War.	1,696
12.300	Basic and Applied Scientific Research: From Univ. of Colorado	(4,220)
12.300	Basic and Applied Scientific Research: From Leonardo Technologies	2,932
12.420	Military Medical Research and Development	491,824
12.420	Military Medical Research and Development: From Univ. of Nebraska	55,939
12.431	Basic Scientific Research	794,412
12.431	Basic Scientific Research: From Univ. of Chicago	184,214
12.630	Basic, Applied, and Advanced Research in Science and Engineering	896,792
12.800	Air Force Defense Research Sciences Program	228,438
12.902	Information Security Grant Program: From Univ. of Colorado	78,138
12.910	Research and Technology Development	926,184
12.999	Miscellaneous Non-Major Grants: From ID Nat. Eng.& Env. Lab	2,080
	<b>TOTAL</b>	<b>\$8,441,229</b>

**DEPARTMENT OF HOUSING & URBAN DEVELOPMENT**

14.246	Community Development Block Grants/Brownfields Economic Development Initiative	71,747
14.901	Healthy Homes Demonstration Grants	59,887
	<b>TOTAL</b>	<b>\$131,634</b>

**DEPARTMENT OF THE INTERIOR**

15.034	Agriculture on Indian Lands	7,500
15.130	Indian Education - Assistance to Schools	7,786

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15.214	Non-Sale Disposals of Mineral Material	1,840
15.222	Cooperative Inspection Agreements with States and Tribes	143,705
15.224	Cultural Resource Management	767,244
15.225	Recreation Resource Management	76,485
15.228	Wildland Urban Interface Community and Rural Fire Assistance	68,240
15.252	Abandoned Mine Land Reclamation (AMLR) Program	115,921
15.299	Miscellaneous Non-Major Grants	1,463,887
15.504	Water Reclamation and Water Reuse Program	120,008
15.608	Fish and Wildlife Management Assistance	497,070
15.611	Wildlife Restoration: From Idaho Fish and Game	7,005
15.615	Cooperative Endangered Species Conservation Fund	8,046
15.617	Wildlife Conservation and Appreciation	32,722
15.634	State Wildlife Grants	9,164
15.634	State Wildlife Grants: From N. Dakota Fish & Game	726
15.635	Neotropical Migratory Bird Conservation	58,410
15.699	USDI/Fish & Wildlife Service	141,699
15.805	Assistance to State Water Resources Research Institutes	38,915
15.808	U.S. Geological Survey-Research and Data Acquisition	1,517,136
15.808	U.S. Geological Survey-Research and Data Acquisition: From Battelle	1,652
15.808	U.S. Geological Survey-Research and Data Acquisition: From University of Idaho	3,342
15.810	National Cooperative Geologic Mapping Program	205,821
15.811	Gap Analysis Program	55,382
15.812	Cooperative Research Units Program	933,592
15.899	USDI/Geological Survey: From Great Basin Bird Observ.	4,316
15.910	National Natural Landmarks Program	736,776
15.912	National Historic Landmark	35,825
15.915	Technical Preservation Services	78,545
15.919	Urban Park and Recreation Recovery Program	16,996
15.921	Rivers, Trails and Conservation Assistance: From Univ. of Illinois	182,273
15.923	National Center for Preservation Technology and Training	173,082
15.999	Miscellaneous Non-Major Grants	397,080

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		AMOUNT
15.DAM Soil, Water, & Air Resources		11,869
	<b>TOTAL</b>	<b>\$7,920,060</b>
<b>DEPARTMENT OF JUSTICE</b>		
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants		29,806
16.609 Community Prosecution and Project Safe Neighborhoods		85,551
	<b>TOTAL</b>	<b>\$115,357</b>
<b>DEPARTMENT OF LABOR</b>		
17.249 Employment Services and Job Training: Pilot and Demonstration Programs		100,687
	<b>TOTAL</b>	<b>\$100,687</b>
<b>DEPARTMENT OF STATE</b>		
19.401 Educational Exchange - University Lecturers (Professors) and Research Scholars		91,659
19.424 Educational Partnerships Program		82,473
	<b>TOTAL</b>	<b>\$174,132</b>
<b>DEPARTMENT OF TRANSPORTATION</b>		
20.106 Airport Improvement Program: From G5 Technologies		38,055
20.106 Airport Improvement Program: From Peccia & Associates		121,274
20.205 Highway Planning and Construction		100,000
20.301 Railroad Safety		21,327
20.505 Federal Transit - Metropolitan Planning Grants		(3,194)
20.600 State and Community Highway Safety		88,964
20.701 University Transportation Centers Program		2,094,252
20.701 University Transportation Centers Program: From Calf. Dept. of Transport.		255,790
20.701 University Transportation Centers Program: From Univ. of Idaho		17,673
20.701 University Transportation Centers Program: From Univ. of N. Dakota		2,274
	<b>TOTAL</b>	<b>\$2,736,415</b>
<b>FEDERAL MEDIATION AND CONCILIATION SERVICE</b>		
34.001 Employment Discrimination - Title VII of the Civil Rights Act of 1964		8,791
	<b>TOTAL</b>	<b>\$8,791</b>
<b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>		
43.000 NASA		3,487,856

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	<b>AMOUNT</b>
43.000 NASA: From Calf. Inst. for Tech.	64,561
43.000 NASA: From Univ. of Idaho	42,477
43.000 NASA: From Umatilla Tribe	50,437
43.000 NASA: From MT Aerospace Dev. Auth.	91,422
43.001 Aerospace Education Services Program	4,732,319
43.001 Aerospace Education Services Program: From ADVR Inc.	25,354
43.001 Aerospace Education Services Program: From Univ. of Calf. Berkeley	213,255
43.001 Aerospace Education Services Program: From Lockheed Martin	130,145
43.001 Aerospace Education Services Program: From Univ. of N. Dakota	193,541
43.001 Aerospace Education Services Program: From Salish Kootenai College	6,263
43.001 Aerospace Education Services Program: From Smithsonian Astrophy.	52,560
43.001 Aerospace Education Services Program: From SW Research Inst.	927
43.001 Aerospace Education Services Program: From Univ. of Washington	28,338
43.002 Technology Transfer	630,175
43.002 Technology Transfer: From Aerodyne Research Inc.	21,903
43.002 Technology Transfer: From Carnegie Institute	57,028
43.002 Technology Transfer: From Calf. State Univ.	24,643
<b>TOTAL</b>	<b>\$9,853,204</b>

**NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES**

45.024 Promotion of the Arts-Grants to Organizations and Individuals: From DANCE USA	7,499
45.149 Promotion of the Humanities Division of Preservation and Access	19,622
<b>TOTAL</b>	<b>\$27,121</b>

**NATIONAL SCIENCE FOUNDATION**

47.041 Engineering Grants: From ADVR Inc.	936,147
47.041 Engineering Grants: From Univ. of California	20,864
47.041 Engineering Grants: From Micro Powder Sol.	32,050
47.041 Engineering Grants: From PFM Manufacturing	70,295
47.049 Mathematical and Physical Sciences	2,469,709
47.049 Mathematical and Physical Sciences: From Ctr for Adaptive Optics	35,525
47.049 Mathematical and Physical Sciences: From Nat. Optical Astronom.	133,663
47.049 Mathematical and Physical Sciences: From Univ. of Missouri	30

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47.049	Mathematical and Physical Sciences: From Univ. of Missouri	231,427
47.049	Mathematical and Physical Sciences: From Univ. of Missouri	13,481
47.050	Geosciences	1,573,191
47.050	Geosciences: From MIT	30,331
47.050	Geosciences: From Ohio Univ.	82,895
47.070	Computer and Information Science and Engineering	334,850
47.070	Computer and Information Science and Engineering: From Salish Kootenai Coll.	22,304
47.074	Biological Sciences	4,886,061
47.074	Biological Sciences: From Univ. of Calif. Davis	111,129
47.074	Biological Sciences: From Idaho State Univ.	51,621
47.074	Biological Sciences: From Duke University	14,073
47.075	Social, Behavioral, and Economic Sciences	305,960
47.076	Education and Human Resources	4,209,377
47.076	Education and Human Resources: From Coll. of Will. & Mary	46,026
47.076	Education and Human Resources: From Ithaca College	203,950
47.076	Education and Human Resources: From Nat. Sci. Teach. Assc.	337,286
47.076	Education and Human Resources: From Univ. of Corp. for Atm.	(230)
47.076	Education and Human Resources: From City Univ. of New York	50,799
47.078	Polar Programs	391,734
47.078	Polar Programs: From San Diego State	83,960
47.999	Miscellaneous Non-Major Grants: From Assc. of Amer. Geologists	4,346
	<b>TOTAL</b>	<b>\$16,682,854</b>

**SMALL BUSINESS ADMINISTRATION**

59.051	New Markets Venture Capital	3,369
	<b>TOTAL</b>	<b>\$3,369</b>

**ENVIRONMENTAL PROTECTION AGENCY**

66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	9,755
66.454	Water Quality Management Planning	(88)
66.460	Nonpoint Source Implementation Grants	835,753
66.460	Nonpoint Source Implementation Grants: From Blackfoot Challenge	2,535
66.460	Nonpoint Source Implementation Grants: From Sheridan County	5,376

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ending June 30, 2004**

**AMOUNT**

66.460	Nonpoint Source Implementation Grants: From Lower Musselshell Cons.	3,134
66.460	Nonpoint Source Implementation Grants: From Park County	16,145
66.460	Nonpoint Source Implementation Grants: From Flathead Basin Comm.	7,390
66.460	Nonpoint Source Implementation Grants: From City of Belt	64,029
66.460	Nonpoint Source Implementation Grants: From Yellowstone Valley Cons.	26,257
66.460	Nonpoint Source Implementation Grants: From Liberty County Cons. Dt.	20,304
66.460	Nonpoint Source Implementation Grants: From Pondera County Cons. Dt.	36,737
66.500	Environmental Protection - Consolidated Research	1,319,979
66.509	Science To Achieve Results (STAR) Program: From Temple Univ.	43,383
66.605	Performance Partnership Grants: From Lincoln County	23,114
66.606	Surveys, Studies, Investigations and Special Purpose Grants	1,082,211
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From CH2M Hill	54,912
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Univ. of Illinois	50,592
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Powder River	9,477
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Rosebud Conse	15,781
66.607	Training and Fellowships for the Environmental Protection Agency	812
66.608	Environmental Information Exchange Network Grant Program	20,000
66.708	Pollution Prevention Grants Program	17,369
66.714	Pesticide Environmental Stewardship - Regional Grants	4,811
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	218,257
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CDM Fed. Prg. Corp.	223,240
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CH2M Hill	36,419
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites	10,977
66.808	Solid Waste Management Assistance	31,533
66.951	Environmental Education Grants	16

**TOTAL** \$4,190,210

**DEPARTMENT OF ENERGY**

81.022	Used Energy-Related Laboratory Equipment Grants: From MSE Inc.	41,342
81.049	Office of Science Financial Assistance Program	977,706
81.049	Office of Science Financial Assistance Program: From Inland NW Res. Alliance	545,898

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ending June 30, 2004**

**AMOUNT**

81.049	Office of Science Financial Assistance Program: From Washington State U.	202,163
81.049	Office of Science Financial Assistance Program: From Betchel	11,234
81.049	Office of Science Financial Assistance Program: From Princeton Univ.	(1,042)
81.049	Office of Science Financial Assistance Program: From ID Nat. Engin.& Env. Lab	1,952
81.049	Office of Science Financial Assistance Program: From San Diego State	62,105
81.049	Office of Science Financial Assistance Program: From Sandia Corp.	36,076
81.049	Office of Science Financial Assistance Program: From Univ. of Wyoming	44,473
81.057	University Coal Research	437,795
81.064	Office of Scientific and Technical Information: From Univ. of Calf. Lawrence	12,916
81.079	Regional Biomass Energy Programs	42,396
81.087	Renewable Energy Research and Development	127,104
81.087	Renewable Energy Research and Development: From Battelle	18,863
81.087	Renewable Energy Research and Development: From Betchel	12,373
81.087	Renewable Energy Research and Development: From Big Sky Econ. Dev.	224,104
81.087	Renewable Energy Research and Development: From Fuel Cell Energy Inc.	117,688
81.087	Renewable Energy Research and Development: From Pacific NW Labor.	861,832
81.087	Renewable Energy Research and Development: From Sandia Inc.	277,081
81.089	Fossil Energy Research and Development: From Betchel	1,136
81.089	Fossil Energy Research and Development: From Ohio Univ.	39,396
81.089	Fossil Energy Research and Development: From Virginia Polytech Inst.	159,467
81.104	Office of Environmental Cleanup and Acceleration	124,021
81.104	Office of Environmental Cleanup and Acceleration: From MSE Inc.	354,549
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training: From INEEL	84,509
81.119	State Energy Program Special Projects	305,534
81.999	Miscellaneous Non-Major Grants: From Resonon Inc.	23,254
81.R&D	Miscellaneous Research and Development: From Betchel	20,654
<b>TOTAL</b>		<b>\$5,166,579</b>

**DEPARTMENT OF EDUCATION**

84.042	TRIO-Student Support Services	352,474
84.116	Fund for the Improvement of Postsecondary Education	386,538
84.133	National Institute on Disability and Rehabilitation Research	579,521



**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ending June 30, 2004**

**AMOUNT**

84.133	National Institute on Disability and Rehabilitation Research: From Univ. of Kansas	13,739
84.215	Fund for Improvement of Education: From Bozeman School District	162,644
84.215	Fund for Improvement of Education: From Anaconda School Dist.	1,493
84.336	Teacher Quality Enhancement Grants: From Nat. FFA Organ.	1,412
84.350	Transition to Teaching	652,867
<b>TOTAL</b>		<b>\$2,150,688</b>

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers: From MT Trans. Partnership	107,198
93.113	Biological Response to Environmental Health Hazards	919,035
93.115	Biometry and Risk Estimation Health Risks from Environmental Exposures: From Harvard College	384,701
93.121	Oral Diseases and Disorders Research	171,407
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention: From Missoula Indian Center	774
93.136	Injury Prevention and Control Research and State and Community Based Programs	369,783
93.173	Research Related to Deafness and Communication Disorders	115,896
93.173	Research Related to Deafness and Communication Disorders: From Allegheny-Singer Res.	125,467
93.173	Research Related to Deafness and Communication Disorders: From Univ. of Calif. S.D.	6
93.173	Research Related to Deafness and Communication Disorders: From Univ. of Texas	17,472
93.178	Nursing Workforce Diversity	230,815
93.184	Disabilities Prevention	401,365
93.206	Human Health Studies Applied Research and Development: From Assoc. of Occup. & Envir.	11
93.211	Telehealth Network Grants	135,686
93.213	Research and Training in Complementary and Alternative Medicine	4,338
93.226	Research on Healthcare Costs, Quality and Outcomes	335,461
93.242	Mental Health Research Grants	405,492
93.242	Mental Health Research Grants: From Behavioral Tech. Group	19,363
93.247	Advanced Education Nursing Grant Program: From Oregon Health Sci.	381,317
93.263	Occupational Safety and Health Training Grant	1,029
93.273	Alcohol Research Programs	82,512
93.279	Drug Abuse Research Programs	51,880

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ending June 30, 2004**

**AMOUNT**

93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	817,943
93.287	Bioengineering Research	186,736
93.287	Bioengineering Research: From Scripps Institute	345,924
93.287	Bioengineering Research: From Sequoia Scient. Inc.	128,246
93.301	Small Rural Hospital Improvement Grants	83,240
93.333	Clinical Research: From Mount Sinai School	(17)
93.358	Advanced Education Nursing Traineeships	27,079
93.361	Nursing Research	401,798
93.361	Nursing Research: From American Physiol. Society	3,289
93.361	Nursing Research: From Univ. of Idaho	37,987
93.361	Nursing Research: From John Hopkins Univ.	3,784
93.389	National Center for Research Resources	8,479,842
93.389	National Center for Research Resources: From Ligocyte Pharmaceuticals	8,462
93.390	Academic Research Enhancement Award	23,342
93.393	Cancer Cause and Prevention Research: From Mount Sinai School	86,721
93.395	Cancer Treatment Research: From Vanderbilt Univ.	350,116
93.396	Cancer Biology Research	106,349
93.398	Cancer Research Manpower	76,370
93.612	Native American Programs	9,390
93.647	Social Services Research and Demonstration	763,226
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	780,973
93.822	Health Careers Opportunities Program: From Univ. of Washington	42,466
93.824	Basic/Core Area Health Education Centers: From Univ. of Washington	82,636
93.837	Heart and Vascular Diseases Research	268,395
93.838	Lung Diseases Research	621,067
93.838	Lung Diseases Research: From Tredau Institute	395,859
93.838	Lung Diseases Research: From Univ. of Rochester	518,475
93.838	Lung Diseases Research: From Univ. of Calif.	165,720
93.839	Blood Diseases and Resources Research	109,760
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	379,518
93.849	Kidney Diseases, Urology and Hematology Research	141,355

**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ending June 30, 2004**

		<b>AMOUNT</b>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1,229,148
93.854	Biological Basis Research in the Neurosciences	(5,807)
93.855	Allergy, Immunology and Transplantation Research	1,304,088
93.856	Microbiology and Infectious Diseases Research	3,457,191
93.856	Microbiology and Infectious Diseases Research: From Univ. of Washington	68,608
93.856	Microbiology and Infectious Diseases Research: From Colorado State Univ.	134,315
93.859	Biomedical Research and Research Training: From Case Western Univ.	1,145,887
93.862	Genetics and Developmental Biology Research	336,521
93.862	Genetics and Developmental Biology Research: From University of Minesota	40,627
93.865	Child Health and Human Development Extramural Research	66,808
93.866	Aging Research	17,270
93.867	Vision Research	325,727
93.887	Health Care and Other Facilities	124,882
93.906	Rural Health Medical Education Demonstration Projects	53,702
93.999	Miscellaneous Non-Major Grants	254,344
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	50,861
93.R&D	Miscellaneous Research and Development: From Univ. of South Dakota	293,378
<b>TOTAL</b>		<b>\$28,604,609</b>
 <b>SOCIAL SECURITY ADMINISTRATION</b>		
96.007	Social Security Research and Demonstration	65,586
<b>TOTAL</b>		<b>\$65,586</b>
 <b>HOMELAND SECURITY</b>		
93.996	Bioterrorism Training and Curriculum Development Program	78,627
<b>TOTAL</b>		<b>\$78,627</b>
 <b>UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT</b>		
98.005	Institutional Support Assistance (ISA): From Univ. of Hawaii - Man.	400,893
98.005	Institutional Support Assistance (ISA): From Univ. of Calf. Davis	90,915

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State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2004

AMOUNT

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98.005 Institutional Support Assistance (ISA): From Virginia Polytechnic

1,974

*TOTAL*

\$493,782

TOTAL RESEARCH AND DEVELOPMENT CLUSTER

\$102,943,765

TOTAL EXPENDITURES OF FEDERAL AWARDS

\$1,806,237,569

**STATE OF MONTANA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Note 1. Basis of Accounting**

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2004, Montana distributed \$390,830 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$4,780,825 in commodities in fiscal year 2004. The value at June 30, 2004 of commodities stored at the state's warehouse is \$ 1,509,580 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Non-fat Dry Milk

The federal government sold non-fat dry milk for \$1.00 per semi-truck load. Each truck contained approximately 20 tons per truck. In fiscal year 2004, the Department of Agriculture purchased 264 truck loads for \$264. The fair value of the dry milk is estimated at \$422,000. The milk was given to qualified Montana farmers to exchange with feed producers to receive a credit in feed purchases as required by the USDA.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs

expended as of June 30. The amount of loans outstanding as of June 30, 2004 in the Water Pollution Control Revolving Fund Program is \$83,353,151.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2004. The amount of loans outstanding for the program as of June 30, 2004 is \$41,256,114.

#### Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2004 is \$351,739.

#### Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$184,866,228 in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2004. The outstanding loan balance (including principle, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was \$50,645,885 at June 30, 2004. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2004 of \$15,522,935 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor and \$390,074 for default aversion.

#### Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2004. The amount of loans outstanding as of June 30, 2004 is \$30,133,985.

#### Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.364) as of June 30, 2004 is \$1,583,584.

#### Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2004. The state used the CDC price list to calculate the value of doses received. During fiscal year 2004, Montana received 173,252 vaccine doses valued at 2,929,942.

#### Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe

agreed to loan the State of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount presented for the Tongue River Rehabilitation Loan (CFDA 15.199) represents the amount of tribal loan funds expended on project costs during fiscal year 2004. The amount of the loan outstanding as of June 30, 2004 is \$9,851,282.

#### Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S. Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is \$2,990,129 and interest during construction is \$281,857. The amount, as of June 30, 2004, of loan outstanding is \$2,653,482 and of interest during construction outstanding is \$230,812.

### **Note 2. Type A Federal Programs**

The State of Montana issues a biennial single audit report. The Single Audit report for the two fiscal years ended June 30, 2005 will be issued by March 31, 2006. The type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2005. The type A program threshold is estimated to be \$12,708,230 for the biennial period.

### **Note 3. CFDA #**

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format \*\*.99, \*\*.999, or \*\*.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of

prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

#### **Note 4. Federal Excess Personal Property**

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY04 Amount</u>	<u>Inventory</u>
10.664	Cooperative Forestry Assistance	\$505,632	\$8,701,321
12.999	Miscellaneous Non-Major	\$0	\$53,590
47.999	National Science Foundation	\$0	\$715,416

#### **Note 5. Books for the Blind and Physically Handicapped:**

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2004, was \$1,872,651. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

#### **Note 6. Unemployment Benefits**

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The President of the United States signed the Temporary Extended Unemployment Compensation Act (TEUCA) on March 9, 2002. This act initially provided up to 13 weeks of 100 percent federally funded benefits to qualified individuals in each state. The program was due to expire on December 31, 2002, but was extended until August 30, 2003. The program was later extended again until December 21, 2003. Final benefit payments were made the week of April 3, 2004. The TEUC program benefit payments totaled \$7,234,691 of the total federal UI benefits paid in state fiscal year 2004.



The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

UI Administrative Costs	\$ 7,284,019
State UI Benefits	79,393,958
Federal UI Benefits	<u>14,487,726</u>
Total	\$101,165,703

**Note 7. Subgrants to State Agencies**

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

**Note 8. Subgrants to Non-State Entities**

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2004.

<b>CFDA Number</b>	<b>Program Title</b>	<b>Amount Provided To Subrecipient</b>
10.156	Federal-State Marketing Improvement Program	18,650
10.200	Grants for Agricultural Research, Special Research Grants	701,362
10.206	Grants for Agricultural Research & Competitive Research Grants	155,256
10.217	Higher Education Challenge Grants	31,439
10.250	Agricultural and Rural Economic Research	16,818
10.302	Initiative for Future Agriculture and Food Systems	311,702
10.450	Crop Insurance	7,668
10.500	Cooperative Extension Service	111,183
10.550	Food Donation	2,542,989
10.553	School Breakfast Program	3,838,161
10.555	National School Lunch Program	16,021,549
10.556	Special Milk Program for Children	37,068
10.557	Special Supplemental Nutrition Program for WIC	3,316,861
10.558	Child and Adult Care Food Program	8,559,123
10.559	Summer Food Program for Children	756,754
10.560	State Administrative Expenses for Child Nutrition	170,045
10.570	Nutrition Services Incentive	660,303
10.572	WIC Farmers' Market Nutrition Program (FMNP)	41,051
10.574	Team Nutrition Grants	2,000
10.652	Forestry Research	51,608
10.664	Cooperative Forestry Assistance	466,261
10.665	Schools and Roads-Grants to States	12,426,043
10.672	Rural Development, Forestry, and Communities	340,414
10.769	Rural Business Enterprise Grants	(576)
10.773	Rural Business Opportunity Grants	129,628
10.901	Resource Conservation and Development	27,840
10.961	Scientific Cooperation and Research	32,572
11.112	Export Promotion Market Development Cooperation	23,367
12.002	Procurement Technical Assistance For Business Firms	94,235
12.300	Basic and Applied Scientific Research	320,832
12.630	Basic, Applied, and Advanced Research in Science and Engineering	28,921
12.910	Research & Technology Development	299,771
14.195	Section 8 Housing Assistance Payments Program Special Allocations	15,204,188
14.228	Community Development Block Grant/State's Program	7,732,320
14.239	Home Investment Partnerships Program	5,686,775
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	5,897
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	131,758
14.871	Section 8 Housing Choice Vouchers	1,379,450
15.224	Cultural Resource Management	216,679
15.228	Wildland Urban Interface Community and Rural Fire Assistance	145
15.608	Fish and Wildlife Management Assistance	201,957
15.808	U.S. Geological Survey-Research and Data Collection	25,000
15.812	Cooperative Research Units Program	100,261
15.900	Miscellaneous	14,333
15.910	National Natural Landmarks Program	42,219
15.912	National Historic Landmark	25,451
15.916	Outdoor Recreation-Acquisition, Development and Planning	262,840
15.921	Rivers, Trails and Conservation Assistance	61,165
15.999	Miscellaneous Department of the Interior	106,814
16.523	Juvenile Accountability Incentive Block Grants	750,512
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	691,801
16.548	Title V Delinquency Prevention Program	55,000
16.549	Part E State Challenge Activities	70,500
16.554	National Criminal History Improvement Program (NCHIP)	153,560
16.575	Crime Victim Assistance	1,409,035
16.579	Byrne Formula Grant Program	1,556,022
16.588	Violence Against Women Formula Grant	660,159
16.592	Local Law Enforcement Block Grant Program	213,521
16.609	Community Prosecution and Project Safe Neighborhoods	30,000
16.710	Public Safety Partnership and Community Policing Grants	190,846
16.727	Enforcing Underage Drinking Laws Program	343,300
17.235	Senior Community Service Employment Program	538,276
17.249	Employment Services and Job Training: Pilot and Demo. Programs	67,021
17.258	WIA Adult Program	2,635,072
17.259	WIA Youth Activities	2,570,102
17.260	WIA Dislocated Workers	4,418,990
19.424	Educational Partnerships Program	25,229
20.106	Airport Improvement Program	252,562
20.205	Highway Planning and Construction	5,529,159
20.219	Recreational Trails	589,890

<b>CFDA Number</b>	<b>Program Title</b>	<b>Amount Provided To Subrecipient</b>
20.500	Federal Transit - Capital Investment Grants	109,239
20.505	Federal Transit - Metropolitan Planning Grants	290,295
20.507	Federal Transit - Formula Grants	1,915,676
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	369,502
20.514	Transit Planning and Research	132,540
20.600	State and Community Highway Safety	6,714,329
20.701	University Transportation Centers Program	56,018
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	10,777
21.999	Treasury Miscellaneous	2,256,999
43.000	NASA	1,253,089
43.001	Aerospace Education Services Program	96,695
43.002	Technology Transfer	46,291
45.025	Promotion of the Arts-Partnership Agreements	330,477
45.310	State Library Program	48,563
47.041	Engineering Grants	42,997
47.050	Geosciences	36,010
47.074	Biological Sciences	287,857
47.075	Social, Behavioral, and Economic Sciences	49,599
47.076	Education and Human Resources	1,356,608
47.078	Polar Programs	53,541
59.037	Small Business Development Center	400,000
66.500	Environmental Protection: Consolidated Research	279,258
66.606	Surveys, Studies, Investigations and Special Purpose Grants	71,636
66.811	Brownfield Pilots Cooperative Agreements	21,012
81.049	Office of Science Financial Assistance Program	106,878
81.057	University Coal Research	37,997
81.104	Office of Environmental Cleanup and Acceleration	37,000
81.119	State Energy Program Special Projects	161,681
84.002	Adult Education-State Grant Program	1,246,570
84.010	Title I Grants to Local Educational Agencies	36,941,325
84.011	Migrant Education-Basic State Grant Program	738,374
84.013	Title I Program for Neglected and Delinquent Children	184,646
84.015	National Resource Centers and Fellowships Program for Language and Area	8,750
84.027	Special Education - Grants to States	26,320,551
84.048	Vocational Education - Basic Grants to States	3,789,479
84.069	Leveraging Educational Assistance Partnership	214,787
84.116	Fund for the Improvement of Postsecondary Education	221,922
84.133	National Institute on Disability and Rehabilitation Research	25,529
84.153	Business and International Education	13,259
84.173	Special Education - Preschool Grants	1,209,645
84.186	Safe & Drug Free Schools and Communities - State Grants	1,964,729
84.196	Education for Homeless Children and Youth	173,500
84.213	Even Start - State Educational Agencies	945,383
84.215	Fund for the Improvement of Education	127,605
84.235	Rehabilitation Services Demonstration and Training Programs	81,309
84.243	Tech-Prep Education	418,525
84.264	Rehabilitation Training-Continuing Education	28,474
84.287	Twenty-First Century Community Learning Centers	2,764,678
84.298	State Grants for Innovative Programs	1,542,433
84.303	Technology Innovation Challenge Grants	5,000
84.318	Education Technology State Grants	2,785,648
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	175,980
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Disabilities	74,815
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	22,978
84.330	Advanced Placement Incentive Program	174,189
84.332	Comprehensive School Reform Demonstration	773,855
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	798,599
84.338	Reading Excellence	4,609,749
84.348	Title I Accountability Grants	64,972
84.350	Transition to Teaching	30,000
84.357	Reading First State Grants	1,832,551
84.358	Rural Education	529,748
84.360	Dropout Prevention Programs	182,000
84.365	English Language Acquisition Grants	514,494
84.366	Mathematics and Science Partnerships	42,283
84.367	Improving Teacher Quality State Grants	12,856,733
84.999	Miscellaneous - Non Major	362,969
93.003	Public Health and Social Services Emergency Fund	1,521
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	27,600
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	66,141

<b>CFDA Number</b>	<b>Program Title</b>	<b>Amount Provided To Subrecipient</b>
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	108,496
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,588,535
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,508,485
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	140,187
93.052	Nation Family Caregiver Support Program	790,361
93.110	Maternal and Child Health Federal Consolidated Programs	37,400
93.113	Biological Response to Environmental Health Hazards	119,820
93.115	Biometry and Risk Estimation-Health Risks from Environmental Exposures	48,959
93.150	Projects for Assistance in Transition from Homelessness (PATH)	293,598
93.173	Research Related to Deafness and Communication Disorders	28,354
93.184	Disabilities Prevention	32,028
93.217	Family Planning Services	1,266,983
93.226	Research on Healthcare Costs, Quality and Outcomes	42,123
93.230	Consolidated Knowledge Development and Application (KD&A) Program	344,991
93.235	Abstinence Education	22,376
93.241	State Rural Hospital Flexibility Program	291,654
93.273	Alcohol Research Programs	26,253
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	324,983
93.301	Small Rural Hospital Improvement Grants	444,813
93.361	Nursing Research	1,901
93.375	Minority Biomedical Research Support	937,500
93.389	National Center for Research Resources	199,840
93.556	Promoting Safe and Stable Families	808,435
93.558	Temporary Assistance for Needy Families (TANF)	(7,356)
93.566	Refugee and Entrant Assistance-State Administered Programs	79,631
93.575	Child Care and Development Block Grant	5,249,259
93.576	Refugee and Entrant Assistance-Discretionary Grants	55,832
93.590	Community-Based Family Resource and Support Grants	136,864
93.600	Head Start	152,371
93.630	Developmental Disabilities Basic Support and Advocacy Grants	14,997
93.647	Social Services Research and Demonstration	343,086
93.658	Foster Care Title IV-E	2,056,577
93.669	Child Abuse and Neglect State Grants	20,000
93.671	Family Violence Prevention and Services/Grants for Battered Women	804,008
93.674	Chafee Foster Care Independent Living	337,000
93.778	Medical Assistance Program	19
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	102,932
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	53,587
93.855	Allergy, Immunology and Transplantation Research	338,173
93.856	Microbiology and Infectious Diseases Research	37,765
93.913	Grants to States for Operation of Offices of Rural Health	10,000
93.940	HIV Prevention Activities-Health Department Based	48,811
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,042,033
93.969	Geriatric Education Centers	4,999
93.991	Preventive Health and Health Services Block Grant	152,469
93.994	Maternal and Child Health Services Block Grant to the States	1,102,082
93.996	Bioterrorism Training and Curriculum Development Program	2,679
94.004	Learn and Serve America - School and Community Based Program	30,462
94.005	Learn and Serve America - Higher Education	5,399
94.006	Americorps	1,650,202
96.007	Social Security Research and Demonstration	91,539
97.004	State Domestic Preparedness Equipment Support Program	536,843
97.021	Hazardous Materials Assistance Program	11,412
97.036	Public Assistance Grants	87,538
97.039	Hazard Mitigation Grant	190,026
97.042	Emergency Management Performance Grants	858,698
97.047	Pre-Disaster Mitigation	59,973
97.051	State and Local All Hazards Emergency Operations Planning	91,432
97.053	Citizen Corps	6,054
97.054	Community Emergency Response Teams	36,561
98.005	Institutional Support Assistance (ISA)	124,261
<b>TOTAL</b>		<b>257,280,862</b>